MINUTES

MONTANA HOUSE OF REPRESENTATIVES
51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON BUSINESS AND ECONOMIC DEVELOPMENT

Call to Order: By Bob Pavlovich, on January 18, 1989, at 9:00 a.m.

ROLL CALL

Members Present: All

Members Excused: None

Members Absent: None

Staff Present: Paul Verdon and Sue Pennington

Announcements/Discussion: Rep. Pavlovich stated some ground rules before starting the meeting. We will give the proponents of the bill one hour and the opponents of the bill one hour, and then we will go into questions and then we will give the sponsor of the bill the right to close. There will be no badgering from anybody in the audience, we will sit here and listen to everybody's testimony. We do have in the audience, I hope, Mr. Fred Flanders from the Banking Commission, he will be here for informational purposes only if somebody would like to ask him a question. We also have in the audience, Ken Nordtvedt, from the Department of Revenue, and he will be here to answer questions for anybody. We will open the hearing on HB 151.

HEARING ON HOUSE BILL 151

Presentation and Opening Statement by Sponsor: I am Rep. Swift, from District 64, Ravalli County. I appear here today as sponsor of HB 151. It gives me a great deal of pleasure to present to you today HB 151. As I look around at the committee, I see folks who were here in the past session and previous sessions before that and this same subject matter has been covered. So I am not going into to many details. I know you have the copy of the bill before you. But I do want to briefly go back through some of the key points that have come up in the past and say to you that for the past 20 years the out-of-state bank holding companies have been sort of fighting with the independent bankers. In fact, some people have called this a civil war. I think it is about time in this session that we come to some conclusion on this particular question and hope we can get on with our business. The Montana Banker's Association represents all but 15 banks out of a total of 154 banks of all types and sizes in Montana and has developed a compromise which I think is a very good approach and should be a good vehicle to settle this matter now, because as I understand it two-thirds of the members of that association have been in agreement with this bill that you have before you today. I want to repeat that this is a compromise and have agreed that this is the best way to go so they can get on with their business. HB 151 allows the big banks like Norwest, FirstBanks, First InterState to merge and consolidate into one bank. But it does not allow those out-of-state holding companies to come into Montana and establish branches. That prevents them from buying up the banks in the state of Montana and protects some of the folks that we already have here. On the other hand, it does allow the small independent bank to merge and expand so they can grow and become more competitive in the communities that they serve, and be better able to serve those folks that they have been doing business with over the years, as businesses change. I think most of you realize that the big companies like Sears Roebuck, J.C. Penney, etc. the brokerage houses, and others are all today out after your money. And, of course, you go down to finance your house at the mortgage company, finance your car through the car dealer, and the savings and loans now are competing very strongly with our banking situation in Montana. They are all after that money. I guess I could use a well worn expression, if it looks and quacks like a duck, I call it a duck. And there are a lot of ducks in the financial game today. The reason we are here is to try to get a level playing field where all the smaller folks in the banking industry can play on the same level as the others. So as a result of this intensification in the financial community and what has happened in the past years, the earnings of these banks has fallen off considerably. I don't need to go back into '85 and '86, I think most of you realize that the financial community as well as some other things have been in a depressed condition. This is contributed somewhat to the problems we see today. In addition, Congress, as you well know, has heaped all kinds of laws, like the Community Reinvestment Act, and Funds Availability Act, on banks which has increased compliance costs for banks. Also, equipment costs have gone up just as it has in other business activity. So, even processing checks and other things, have begun to cost more for these operations. Consequently we have got to look at something to give these people a little better competitive position in the community so they can continue to supply the services that they have in the past and do it in an efficient manner. Out of the 169 banks in Montana, about 100 are under 25 million dollars in size. That sounds like a lot of money but when you think in terms of capitalizing that 25 million dollars asset fees, you need to add 2 million dollars, so that makes it pretty tough to do anything in the business world related to transactions in the banking community in small banks. Guess you could ask the question why anyone would want to invest 2 million dollars in a bank that probably makes between 8 to maybe 10 percent now, when you can go down to the brokerage house or somewhere else without taking on a job mind you and get in excess of that 10 percent. And your investment will not have to work for it. These are just some of the problems that have risen over the years and where we find ourselves now. Just to reiterate, this is not a big banking bill, this is a bill to save the operation of a lot of our small banks in Montana and the independents. That is why we have so many folks here today to testify on this bill. I am not going in to the details of the bill itself. I think that will be brought out in the testimony.

<u>List of Testifying Proponents and What Group They Represent:</u>

John Cadby, Montana Bankers Association, Helena
Mark Safty, Attorney, Billings and drafter of the bill
Gary Carlson, CPA, Anderson-ZurMuehlen & Co., Helena
Lynn Grobel, President of MBA & First National Bank, Glasgow
Jim Bennett, President, First Citizens Bank, Billings
Mike Grove, President, First National Bank of White Sulpher Springs
Sam Dasios, Businessman, Troy
Earl Lovick, Director, First National Bank, Libby
Rock Ringling, Consumer, Helena
John Witte, President, Traders State Bank, Hamilton
Marty Olsson, Vice President, Ronan State Bank
Sam Noel, Ex. Vice President, Citizens State Bank, Hamilton
John Franklin, President, First United Bank, Sidney
Bob Henry, President, First Security Bank, Missoula
Verna Welch, President, Missoula Bank of Montana
Bob Sizemore, President, Western Bank of Chinook
Rod Smith, President, U.S. National Bank, Red Lodge
Ken Hendrix, President, First National Bank, Twin Bridges

Larry Moore, Cashier, Stockmens Bank, Cascade
Clint Rouse, CEO, State Bank & Trust Co., Dillon
Don Oie, CEO, Citizens State Bank, Scobey
Rex Manuel, Montana Bancsystem and Bank System of Montana
Bill Thorndal, President, First Security Bank of Laurel
Rep. Janet Moore

List of Testifying Opponents and What Group They Represent:

Gene Combes, First InterState Bank, Billings
Paul Caruso, Chairman of First Security Bank, Helena
Keith Colbo, Montana Independent Banker's Assoc., Helena
Wayne Gibson, First Security Bank, Bozeman
Myer Harris, Yellowstone Bank, Billings
Ray Brandewie, Montana Independent Bankers
Dick Bower, President, Valley Bank, Kalispell
Roger Tippy, Legal Counsel for Independent Bankers
Dennis DeVries, Vice President, Security State Bank, Polson
Buster Schrieber, Chairman, Valley Bank, Belgrade
Tom Weaver, Bank West, Kalispell
Fred Garriety, Lake County Bank, St. Ignatius
Kent Harris, Yellowstone Bank, Laurel
Doug Morton, President, Bank West, Kalispell
Ron Ahlens, President, Montana Independent Bankers
Bruce MacKenzie, D.A. Davidson & Co.

Testimony: There was extensive testimony given in favor of this bill as well as in opposition to it. See the attached exhibits.

Questions From Committee Members: There were numerous questions asked by the committee which were answered by the many people who testified for this bill. Rep. Simon had questions of Mr. Bennett and stated that there was something he wanted to get on the record. He stated that he and Mr. Bennett had known each other for a number of years in the Billings business community and we visited yesterday about this bill and I assured you that I was going to try to maintain an open mind to this particular piece of legislation and based on our conservations and our long time friendship, do you still have confidence that I still retain an open mind on this bill? Mr. Bennett said he did. Rep. Simon asked if Mr. Bennett was aware that Mr. Simon had litigation pending against one of the system banks. Mr. Bennett said he was aware of this. Rep. Simon said, "and despite that I still have this pending litigation, you believe that I will have an open mind." Mr. Bennett said he believed that Rep. Simon would.

Rep. Simon thanked him and stated that he appreciated that. Mr. Bennett, we have heard about Fromberg two or three times here. Your bank is not very far away from Fromberg. You drive south on the highway towards Fromberg, if you blink you will end up six miles later in Bridger. Do you think Fromberg is a likely candidate for a bank to put a branch in? Mr. Bennett stated that had the bank in Fromberg not closed it would probably have become a branch of the bank in Bridger.

Closing by Sponsor: Rep. Swift closed as short as he could. There are a few points I would like to make in regards to the comments. First of all I find it rather peculiar that we have a banking system here, first of all I must say other than the DAD company's trust question, all these folks I understand are independent bankers. I find that some are opposing this bill and in other states they aren't merging their banks. I find that kind of peculiar but that is just for your consideration. Again, I want to bring to your attention a point that this bill does not require any bank to do anything. It doesn't require them to merge, it gives them that opportunity to do that if they see that that's appropriate for their particular system and their operation. I was pleased to see the testimony by Mr. Tippy. It was very sweet talk, but I want to point out one thing, actually when we talk about what is going to happen with the taxes that come out of the banking system that question is a point in time and however, you look at that and however the question you pose as was answered by Mr. Nordtvedt, whom I have confidence in. You can answer that any way you want to, you can show any answer you want to come up with point in time. I really want to keep that in mind, and I want you folks to keep that in mind in this committee. The other thing we must keep in mind at all times here when we are talking about these issues is what may or may not happen. I think you also heard Mr. Nordtvedt make the comment that over time this will balance out pretty well. Most of the bankers that I have talked to have said that in relation to the impact of the taxes. The other thing that we haven't really alluded to at least in the very strong terms of this piece of legislation is the fact that we still have the board of bank, the guides that direct what happens and I have some confidence that many of these things in question that we raised today would be looked at very closely and very strongly scrutinized. I just make that point that we don't lose track of this when we talk about the many things in the different banks and the different situations of these banks. This is not a broad bill, it is confined to the state of Montana and it is confined to city and county areas. It is not going to expand everything and explode reactions in Montana. Basically, I want to say this bill applies to multi-banks, it allows them to merge and consolidate and is looked at by the board of banking and others. It will allow branches in a neighboring town. Banks would be allowed to have one detached drive-up. I want to bring to your attention that there are 47 states now that allow what we are talking about today. We in Montana are one of the four that are left and this bill will not allow any additional branches in localities that already have banks. Let's simply say that the rest of the country is liberalizing restrictions on banking while we in Montana are standing still. We are having difficulties in some areas with folks having convenient banking facilities and if you want to help Montana I think we need to change the regulatory lockup in the banking community. My plea today is at least pass this bill and let us debate it for the pros and cons and see if we can't help some of those communities today that are lacking banking facilities as we heard.

DISPOSITION OF HOUSE BILL 151

Motion: None

Discussion: This bill will be discussed in executive action Wednesday, January 25, 1989.

Amendments and Votes: None

Recommendation and Vote: None

ADJOURNMENT

Adjournment At: 12:05 p.m.

Rep. Bob Pavlovich

REP. BOB PAVLOVICH, Chairman

BP/sp
1503.min

DAILY ROLL CALL

BUSINESS & ECONOMIC DEVELOPMENT COMMITTEE

51th LEGISLATIVE SESSION -- 1989

Date 1 18 89

NAME	PRESENT	ABSENT	EXCUSED
PAVLOVICH, BOB	X		
DeMARS, GENE	X		
BACHINI, BOB	X		
BLOTKAMP, ROB	X		
HANSEN, STELLA JEAN	X		
JOHNSON, JOHN	X		
KILPATRICK, TOM	X		
McCORMICK, LLOYD "MAC"	X		
STEPPLER, DON	X		
GLASER, BILL	X		
KELLER, VERNON	X		
NELSON, THOMAS	X		
SIMON, BRUCE	X		
SMITH, CLYDE	X		
THOMAS, FRED	X		
WALLIN, NORM	X		
PAUL VERDON	X		

CS-30

#1

MONTANA BANKERS ASSOCIATION
1 N. Last Chance Gulch
Helena, MT. 59601
(406) 443-4121

January 11, 1989

TO: MONTANA LEGISLATURE

RE: MBA BANK RESTRUCTURE ACT & PUBLIC INTEREST

For years, liberalizing geographic restrictions on banks has been debated. The enclosed study concludes "Because these effects are almost uniformly positive, we believe further liberation is clearly in the public interest."

The principal fear is that banking markets will be dominated by fewer but larger firms. The study says, "For all local markets taken together average market concentration declined over the years 1970-1984. In fact, areas where branching laws were introduced after 1960, actually have more banking alternatives than those with less liberal branching laws."

The removal of geographical restrictions enhances competition by achieving economies of scale, pricing services more competitively and making it more convenient for consumers to obtain services. The study shows, "That increased competition leads to more lending (presumably to higher risk customers), a greater array of services and an increase in services accessibility."

As to the impact on local communities the study states, "It is frequently argued that while larger banking organizations do have higher loan-to-asset ratios than unit banks, the loans are not reinvested in the local communities that were the original source of the deposits. However, it is important to realize that smaller banks also invest a large portion of their funds outside the local community. It is general practice for small banks to lend a significant portion of their funds to non-local banks through the federal funds market and to the US government through holdings of Treasury securities." Restrictive branching laws impede the flow of funds and in "areas of low net credit demand, discriminates against depositors (savers) in favor of borrowers."

As to safety and soundness, "The removal of geographic restrictions will lead to more diversified banks that are better able to withstand unexpected downturns in a particular industry."

As you can see, it is in the public interest to support the MBA Bank Restructure Act.

Respectfully yours,

Lynn Grobel

LYNN D. GROBEL
MBA President

EXHIBIT 1
DATE 1/18/89
HB 151

LDG/sh

Enclosure

ISSUES IN

BANK REGULATION

BANK ADMINISTRATION INSTITUTE ◂ SPRING 1988

Geographic Deregulation, Banking and the Public Interest

Bank Charters: Reexamining Their Role

Swaps and Credit Risks

Geographic Deregulation in Banking and the Public Interest

Herbert Baer,
Douglas D. Evanoff,
Diana L. Fortier
and
Larry R. Mote
Economists
Federal Reserve Bank
Chicago, Illinois

Interstate banking is no longer a prospect – it is reality. In many states, its arrival has been accompanied by another equally important but less heralded change – the removal of restrictions on intrastate branching. While it is generally agreed these changes will lead to larger banking organizations, there is disagreement about their effects on the level of competition in banking and the resulting impact on both consumers and commercial banks. In this article, we compare banking performance in different states and analyze the experience of foreign countries to draw conclusions about the likely effects of further removal of barriers to geographic expansion in banking. Because these effects are almost uniformly positive, we believe further liberalization is clearly in the public interest.[1]

Market Structure

Perhaps the most common argument presented in opposition to broader geographic expansion is that it will cause banking markets to be dominated by fewer but larger firms. This increase, it is feared, will encourage collusive behavior, leading to a misallocation of resources and exploitation of bank customers. Theory and a substantial amount of evidence suggest that the greater the number of firms and the less their size disparity, the lower the likelihood of collusion and monopolistic restriction of output. This common structure-conduct-performance paradigm states that the probability of noncompetitive behavior can be inferred from the number and size distribution of firms in the market.

Accepting the validity of the paradigm as a working hypothesis, the initial issue is whether allowing broader geographic expansion in banking will lead to concentration increases. Data on the relationship between branching status and *local* market concentration are presented in Figure 1. They indicate that, for all local markets taken together, average concentration declined over the years 1970-1984. However, concentration was essentially unchanged in markets in unit banking states, while it declined substantially in limited branching states and even more sharply in statewide branching states. By 1983, the absolute level of concentration was essentially the same across areas with different branching laws. This, however, represented a substantial change from earlier years and reflects, among other things, the benefits from branching.

The impact of branching restrictions was significantly different in rural and urban banking markets. The variation in average market concentration between states with different branching laws is rather minimal in

[1]For a detailed review of related topics, see *Toward Nationwide Banking*, (Chicago: Federal Reserve Bank of Chicago, 1986).

Figure 1: Local Market Structure Data by Branching Status (Herfindahl Indexes and Three Bank Concentration Ratios)

Type of Market	Concentration Measure	Year	All States	Statewide Branching	Limit Branching	Unit Banking
All Markets	HHI	1970	4434	4918*	4384	4249
		1980	4079	4054	3975*	4227
		1983	4013	3947	3944	4147
		1984	4022	3912	4007	4160
	C_3	1970	88.5%	93.2%*	88.5%*	86.4%
		1980	86.9%	87.4%	86.6%	87.0%
		1983	86.6%	86.8%	86.6%	86.5%
		1984	86.7%	86.4%	86.9%	86.6%
Nonmetropolitan Counties	HHI	1970	4698	5257*	4702*	4452
		1980	4340	4489	4182	4431
		1983	4269	4367	4148	4352
		1984	4277	4341	4180	4405
	C_3	1970	90.6%	95.3%*	91.1%*	88.2%
		1980	89.5%	91.8%*	88.5%*	89.0%
		1983	89.2%	91.3%*	88.5%*	88.7%
		1984	89.2%	91.0%*	88.4%*	89.2%
Metropolitan Areas	HHI	1970	2293	2731*	2295*	1955
		1980	1972	2024*	2081*	1692
		1983	1929	1986*	2068*	1603
		1984	1961	1983*	2128*	1613
	C_3	1970	71.4%	79.2%*	71.0%*	66.1%
		1980	66.1%	66.8%*	68.7%*	60.8%
		1983	65.4%	65.7%*	68.8%*	59.2%
		1984	66.2%	65.8%*	70.3%*	59.5%

SOURCE: FDIC Summary of Deposit data as of June 30, 1970, 1980, 1983 and 1984.

*Mean for statewide or limited branching states is significantly different at the .05 level from the mean for the given year for unit banking states.

rural markets. This suggests that further liberalizing entry by permitting interstate banking would probably have less impact on concentration in rural markets but would, if anything, lead to further decreases in concentration.

Urban markets in statewide branching states are more concentrated than their counterparts in unit branching states. However, this difference has also declined over time. It is not surprising that the level is higher in branching markets since, in urban markets with unit banking, an increase in the demand for banking services can be met only by opening new banks. This would naturally cause measured concentration to decline. But a decline in concentration that is solely the result of an artificial restriction need not lead to more competition and its resulting benefits. In fact, the higher concentration observed in urban markets in statewide branching states does not appear to be translated into poorer performance, i.e., service levels, etc.

The data presented in Figure 1 indicate that local market concentration does not differ significantly as a result of branching. However, viewing group averages can be somewhat deceiving given the significant differences in the makeup of banking markets. To adjust for this, additional analysis was undertaken to account for demographic differences between markets that may affect the demand for bank services and the stringency of antitrust enforcement in banking.

This analysis indicates that variables that proxy business attractiveness, such as population and per capita income, are inversely related to market concentration levels. Similarly, the more stringent state regulatory agencies are in granting new charters, the higher the level of concentration. Finally, states that liberalized their branching laws prior to 1960 had significantly higher levels of concentration.

This differential is important because, prior to the 1960 Bank Merger Act, bank acquisitions and mergers were regulated by the states. The applicability of federal antitrust laws to bank mergers was uncertain until the 1963 Supreme Court decision in the *Philadelphia National Bank* case. After the Bank Merger Act subjected bank mergers to prior approval by the bank regulatory agencies, fewer mergers resulting in large increases in concen-

Figure 2. Average Number of Banking Organizations Per Local Market

Totals	Organizations per banking market* 1970	1980
All Markets	5.32	6.06
Unit Banking Markets	5.55	6.06
Branching Markets	5.15	6.05
Legislated after 1960	5.72	7.96
Legislated before 1960	5.06	5.29
Unlimited Branching Markets	4.84	7.60
Legislated after 1960	4.30	9.45
Legislated before 1960	5.06	6.57
Per Capita (x 1000)		
All Markets	.236	.232
Unit Banking Markets	.327	.342
Branching Markets	.167	.171
Legislated after 1960	.258	.227
Legislated before 1960	.152	.150
Unlimited Branching Markets	.191	.186
Legislated after 1960	.270	.283
Legislated before 1960	.158	.160

*Banking markets are defined as counties.

SOURCE: FDIC Summary of Deposits.

tration were allowed. After accounting for these factors, the impact of branching was considered: again, it was not found to influence market concentration.[2]

An alternative means of evaluating the impact of branching on market structure is to analyze the number of banking organizations per market. Data on the average number of banking organizations in local markets in 1970 and 1980 are presented in Figure 2. In 1970, the average number of organizations (i.e., customer alternatives) was smaller in states allowing branching than in unit banking states. By 1980, this difference was negligible.

A closer analysis of those areas allowing branching prior to 1960 and those introducing it later reveals substantial differences. The average number of organizations is significantly smaller in regions where branching was introduced earlier. In fact, areas where branching laws were introduced after 1960 actually have *more* banking alternatives than those with less liberal branching laws. Additional analysis accounting for local market demographic differences adds support to these findings. It suggests that any initial negative impact of branching on the number of organizations is offset within a relatively short time period.[3]

An alternative argument against allowing broader branching emphasizes the experience of other countries that allow nationwide banking. As Figure 3 suggests, in many countries that permit nationwide banking, the banking system is highly concentrated. Some observers claim that interstate banking will inevitably cause banking to become as concentrated in the United States as it is in Canada, France and the United Kingdom. However, other factors—including inappropriate product market definitions—have contributed to these countries' high measured concentration.[4]

Government policy plays a crucial role in determining the structure of a country's banking system. Prior to 1978, it was difficult for new competitors to enter the Canadian market, and Canadian thrifts are still prevented from offering a broad array of banking services.

In Britain, relatively relaxed antitrust procedures, together with limitations on thrift-lending powers, have led to extreme concentration in the retail market; meanwhile, the commercial market seems to be only modestly concentrated.

In France, the high concentration appears to be a deliberate outcome of postwar government policies that have actively encouraged the nationalization and consolidation of most of the country's banks.

Concentration has been lower when the regulators have permitted thrifts to compete aggressively with banks (Germany, Japan and the retail segment of the Canadian market) or have pursued an antitrust policy that more closely resembles that in the United States (Japan). Thus, the existence of nationwide banking alone does not explain the high levels of concentration observed in foreign countries and is not reason to expect the U.S. banking market to become dominated by a relatively few large banks.

[2] For a detailed discussion of these empirical findings, see Douglas D. Evanoff and Diana Fortier, "Geographic Deregulation of Banking: An Analysis of the Impact," in *Proceedings of a Conference on Bank Structure and Competition*, (Chicago: Federal Reserve Bank of Chicago, 1986), pp. 701-720.

[3] Findings in Evanoff and Fortier, op. cit., indicate that the initial decrease in the number of organizations resulting from introducing branching is offset after approximately three years as new entry occurs.

[4] For a discussion of concentration in these countries, see Herbert Baer and Larry Mote, "The Effects of Nationwide Banking on Concentration: Evidence From Abroad," in *Toward Nationwide Banking*, (Chicago: Federal Reserve Bank of Chicago, 1986), pp. 27-38.

Competitive Impact of Allowing Broader Expansion

The removal of geographic restrictions on branching is expected to make banking more competitive for a number of reasons:

First, by making it easier to create larger banks, branching also makes it easier to achieve economies of scale or scope in banking.

Second, because branching makes it easier for outsiders to enter profitable markets, banks in these markets have strong incentives to price their services more competitively.

Third, elimination of branching restrictions makes it easier for banks to offer convenient delivery systems.

Finally, for a variety of reasons, banks that operate over a broad geographic area appear to have strong incentives to offer standard products at the same price throughout their office networks.

This analysis indicates that at the local banking market level, liberal branching laws have not led to increases in concentration. Apparently, antitrust policy and the reduction in barriers to entry have prevented such increases. If the reduction in barriers has increased competition, as economic theory would imply, it should be manifested in changes in bank profitability, service levels and prices.

Profitability. Evidence suggests that the removal of geographic restrictions reduces bank profitability. While differences appear to be substantial, reported figures represent average profit rates that may obscure firm or market differences. (See *Reports of Condition*, June 30, 1980-1985.) To isolate the effect of branching laws, additional analysis has been performed that controls for market differences (e.g., concentration, size, growth) and bank-specific differences (e.g., size, financial ratios). Controlling for these differences, banks in states with branching restrictions were again found to be more profitable than banks in states without restrictions. Of equal importance, concentration was found to be an important determinant of profitability in states that barred branching, but not in states that permitted branching. In these states, firm-specific efficiency seems to be a more important determinant of profitability.[5]

Service Accessibility. The ability to expand geographically can also be expected to make it more convenient for customers to obtain services. More liberal entry will encourage the introduction of new firms, which will increase the number of offices available to service customer needs. Moreover, any economies of organization that permit a branch to operate on a smaller scale than is economic for a unit bank will cause the density of banking offices to be greater in states that permit branching.

In areas where branching is limited, there is a tendency to serve more persons per banking office, indicating a relative lack of consumer convenience. For example, Illinois and Texas have the two highest population/banking office ratios in the United States. Illinois strictly limits the number of offices per bank and their locations, while Texas only began to permit branching in 1987. More sophisticated analysis indicates that, after accounting for demographic differences, local banking markets have 60% more offices per square mile when expansion via branching is allowed.[6]

Service Levels. Both the variety and quantity of bank services may be affected when restrictions on geographic expansion are relaxed. The variety of services will expand because geographic expansion allows banks to grow in size, and evidence suggests that larger banks

Figure 3. Five-Firm National Concentration Ratios for the U.S. and Five Countries with Nationwide Branching*

	Upper bound	Lower bound
Canada Commercial	85.0	70.7
Canada Consumer	60.0	38.0
France	87.0	73.0
Germany	56.8	26.0
Japan	32.0	22.0
United Kingdom	73.0	50.0
United States Commercial	19.0	14.0
United States Consumer	9.7	7.0

*Ranges are produced by altering the type of deposits and institutions included in the calculations. These are detailed by Herbert Baer and Larry Mote in "The Effects of Nationwide Banking on Concentration—the Evidence from Abroad" in Toward Nationwide Banking, Federal Reserve Bank of Chicago, 1986.

[5] The results were arrived at by estimation of a typical structure performance relationship for banks located in the continental United States in 1984. While similar results were generated estimating the relationship using a branching binary to account for expansion restrictions, statistical tests indicated that separate relationships should be estimated for banks in markets with different branch restrictions. For more detail, see Douglas D. Evanoff and Diana L. Fortier, "Reevaluation of the Structure-Conduct-Performance Paradigm in Banking," *Staff Memoranda* 87-9, Federal Reserve Bank of Chicago, 1987.

[6] For a discussion of this, see Douglas D. Evanoff, "Branch Banking and Service Accessibility," *Journal of Money, Credit, and Banking*, (May 1988), pp. 191-202.

Figure 4. Impact of Branching on the Average Price of Bank Services

	(A) Unit Banking States	(B) Statewide Branching States	Expected Difference (A) – (B)	t-Value
Average Service Fees on Regular Checking Accounts	2.5%*	1.8%	+	3.21
Minimum Balance on NOW Accounts	$460*	$339	+	1.93
Average Rate on Consumer Loans	13.83%	13.87%	+	–.22
Average Rate on Real Estate Loans	11.1%*	10.8%	+	1.89

Averages based on data for approximately 500 banks.

*Indicates the fee/rate is significantly larger than its counterpart—5% level of statistical significance. Data are from the Federal Reserve Functional Cost Analysis.

offer a wider array of services.[7] As this occurs, local, perhaps smaller institutions will expand their service offerings to compete with the new entrants.

One would also expect the quantity of output to rise in areas allowing expansion. Customer and geographic diversification by multioffice banks should lower risk, resulting in less need for liquidity and making additional lending more attractive. Smaller, less diversified institutions generally hold a larger portion of assets as deposits at other banks or in investment securities. These nonloan assets are held to maintain liquidity, offset the greater risk resulting from an undiversified loan portfolio and obtain the yield available in national money markets because it may exceed the marginal yield realized on local loans.

There is evidence supporting these contentions. For example, the "fed funds sold plus Treasury securities"-to-asset ratio decreases with institution size, suggesting that because larger institutions have less need to hold liquid assets, they are able to make more loans. This relationship is seen more directly in the loan-to-asset ratio, which increases with bank size. However, even within most size groups, the ability to expand within a state via branching produces higher loan-to-asset ratios. Banks in states with liberal branching laws also have the highest noncorporate loan-to-asset ratios, indicating branching leads to improved servicing of consumer loan needs.

Prices. If the quality of bank services remains unchanged, more competition (found in areas without barriers) should result in lower rates on loans and/or higher rates on deposits. However, it has been shown that increased competition leads to more lending (presumably to higher risk customers), a greater array of services and an increase in service accessibility. This improved service may be expected to partially eliminate any preferred price differential in the more competitive markets.

Figure 4 provides information on the impact of geographic restrictions on bank pricing of certain types of loans and deposits. Service charges, minimum balance requirements and rates on real estate loans are significantly lower in statewide branching states than in unit banking states. Additional analysis, however, indicates the removal of geographic restrictions does not appear to lead to across-the-board increases in deposit rates.

In markets with less than $2.5 billion in bank deposits, moving from unit banking to statewide branching tends to raise CD rates and leave rates on MMDAs and Super NOW accounts unchanged.

In markets with more than $100 billion in bank deposits, moving from unit banking to statewide branching tends to leave rates on CDs unchanged and actually lowers rates on MMDAs and Super NOW accounts.

[7]See Peter Rose, James Kolari, and Kenneth W. Reiner, "A National Survey Study of Bank Services and Prices Arrayed By Size and Structure," *Journal of Bank Research*, Summer 1985, pp. 72-85.

While the removal of geographic restrictions has not been shown to have a clear-cut effect on deposit or consumer loan rates, it does have the positive side effect of broadening the size of banking markets. Research has shown that deposit rates within SMSAs are considerably more uniform in branching states than in unit banking states.[8]

In fact, in statewide branching states, the market for some consumer deposits appears to be statewide, driven by conditions in the larger cities where competition would be strong even in the presence of branching restrictions.[9] Just as statewide branching causes deposit rates to reflect conditions in a state's most competitive markets, interstate banking would tend to cause deposit rates to reflect conditions in the nation's most competitive markets.

Impact on the Local Community

It is frequently argued that, while larger banking organizations (made possible by the relaxation of geographic restrictions) do have higher loan-to-asset ratios than unit banks, the loans are not reinvested in the local communities that were the original source of the deposits. However, it is important to realize that smaller banks also invest a large portion of their funds outside the local community. It is general practice for small banks to lend a significant portion of their funds to nonlocal banks through the federal funds market and to the U.S. government through holdings of Treasury securities. This occurs in large part because lending opportunities within the local community are less profitable than those in other localities.[10] It may also occur because the banks need to diversify their portfolios with loans from outside the local area.

Generally, banks with under $50 million in total deposits tend to be net suppliers of fed funds to the rest of the banking system, while the larger banks are net purchasers of fed funds. Not only are small banks net lenders of these funds, but their level of fed funds sold and holdings of Treasury securities as a percentage of total deposits is the highest of any bank-size category. Thus, small banks appear to be responding to the same financial incentives that affect larger banks. Bank performance data suggests that, holding size constant, small banks in unit banking states sell more fed funds than do banks in branching states. This suggests that small banks would lend more in local markets if branching restrictions were relaxed.

Branch or holding company banks also appear to be more efficient than unit banks in moving funds to where they are most needed. There are two types of evidence that support such a conclusion. The first was contained in a study in the late 1960s that compared the loan-to-deposit ratios of unit banks and individual branches of a large California branch bank in the same towns. Not only was the average loan-to-deposit ratio higher for the branches, but the variance was much greater, indicating that some branches were serving primarily as deposit gatherers and others as lending outlets. Additional evidence is the consistent finding that pricing tends to be much more uniform in areas where branching is permitted. This implies that credit is being allocated more efficiently between markets so as to equalize rates of return and may result in a flow of funds from rural to urban areas.[11]

However, it is precisely this greater mobility or "siphoning" of funds from areas of low net credit demand to areas of high credit demand that is objected to by many critics of branch banking. But this transfer is neither reprehensible nor regrettable. It is the manifestation of the efficient operation of a broad credit market. Any attempt to "keep funds at home," whether through restrictive branching laws or other impediments to the flow of funds, both impairs national economic efficiency and, in areas of low net credit demand, discriminates against depositors in favor of borrowers.

In lines of commerce other than banking, it has long been national policy to oppose such interferences with trade. Banking is one of the few industries in which there is a significant degree of autarky by states and localities. Indeed, federal banking law tends to reinforce the practice. The clauses referring to the "convenience and needs of the community" in the Bank Merger Act and Bank Holding Company Act have consistently been interpreted to refer to the particular communities in which

[8] For example, see Franklin R. Edwards, "The Banking Competition Controversy," *National Banking Review*, vol. 3 (September 1965), pp. 1-34.

[9] See Michael C. Keeley, "Determining Geographic Markets For Deposit Competition in Banking," *Economic Review*, Federal Reserve Bank of San Francisco (Summer 1985), pp. 25-45.

[10] It has also been shown that small banks obtain a larger portion of their funds locally. Thus, they both obtain more locally than do larger banks and send more out of the market via the federal funds market. See Constance Dunham, "Interstate Banking and the Outflow of Local Funds," *New England Economic Review*, Federal Reserve Bank of Boston (March/April 1986), pp. 7-19.

[11] For a discussion of this literature, see Verle Johnston, "Competitive Performance of Unit and Branch Banks," *Proceedings of a Conference on Bank Structure and Competition* (Chicago: Federal Reserve Bank of Chicago, 1967), pp. 1?-14; Franklin Edwards, op. cit.; Matthew Shane, *The Flow of Funds through the Commercial Banking System*, Station Bulletin 306 (St. Paul: Agricultural Experiment Station, 1972).

the concerned banking offices are located. This ignores the fact that the broader community might be better served if loanable funds were lent where they are most needed.

Safety and Soundness

Safety and soundness considerations played, at most, a secondary role in the adoption of both federal and state restrictions on branching. These restrictions are largely the province of the states and predate the major source of safety and soundness legislation — the banking crisis of the 1930s. Nevertheless, policy towards geographic expansion does have implications for the safety and soundness of the banking system.

In the pre-Depression era, branch banks had proportionately fewer failures than unit banks. This difference in failure rates was frequently attributed to the diversification permitted by the larger size and greater geographic scope of branch banks. It is not surprising that this relationship seems to have disappeared in the post-FDIC period since regulators have frequently permitted troubled banks to remain open as long as runs do not take place. Because deposit insurance eliminates the incentive for most depositors to run, we would expect that differences in bank failure rates would be less dramatic or even nonexistent.[12] Therefore, when deposit insurance is available, removal of barriers to geographic expansion is not expected to have a significant impact on the probability of failure.

One means by which branch restrictions may affect bank safety and soundness is through their impact on the ability of the bank to manage its portfolio. Geographic restrictions clearly make it difficult for banks to diversify their loan portfolios. Federal Reserve data on bank lending by industry for banks with assets in excess of $1 billion was collected for 1982 and used to compute an index of loan portfolio diversification. The more diversified (less concentrated) the portfolios across different industries, the lower the index.

Industrial diversification varies with bank size and branching status. Large banks are more diversified than small banks, and banks in states with liberal branching laws are more diversified than banks burdened with greater geographic restrictions. Once again, the burden of the restrictions is two-fold. Not only do they create an artificially large number of nondiversified small banks, but behavior is affected even among banks of similar size. The implication is clear: The removal of geographic restrictions will lead to more diversified banks that are better able to withstand unexpected downturns in a particular industry.

Relaxation of barriers to geographic expansion has one other consequence for bank safety and soundness. If regulators consider some banks "too big to fail," more banks will gain access to *de facto* 100% deposit insurance as the average size of banks and bank holding companies continues to grow. This would eliminate market discipline and create incentives for excessive risk taking.

Although we have serious doubts about the wisdom of the "too big to fail" policy, those who accept it must deal with the potential for consolidation created by interstate banking. One approach would be to place limits on the absolute size of banking organizations. Another would be to relate deposit insurance premiums or capital ratios to bank size to account for the differential in coverage. The basic problem is that deposit insurance has sharply eroded the banking industry's exposure to market discipline. If deposit insurance were properly priced, there would be no incentives for excessive risk taking, and consolidation in the industry would not pose a problem.

"Although we have serious doubts about the wisdom of the 'too big to fail' policy, those who accept it must deal with the potential for consolidation created by interstate banking."

Conclusion

Economic theory and empirical evidence suggest that the consumer is best served when competition is keen and there are few barriers to entry. The evidence also indicates that removal of intrastate restrictions

[12] If a relationship does exist, it would appear that branching is still conducive to safety and soundness. For example, between 1970-1983, 23%, 32% and 45% of failed institutions were in statewide branching, limited branching and unit banking states, respectively. The percentage of unit banks failing was also twice that of branch banks. However, this association does not imply causation, and it is more likely that failure is caused by poor management or fraud.

on branching is procompetitive. Liberalization of restrictions on intrastate branching has been shown to increase bank lending, increase bank portfolio diversification, lower profitability and improve customer convenience through a dramatic increase in the number of bank offices. There is no reason to believe that the impact of interstate banking would be qualitatively different.[13]

Removal of restrictions on intrastate branching is not expected to appreciably increase concentration in most local banking markets. Shifts from limited branching to statewide branching or from statewide branching to interstate banking could even lead to decreases in market concentration in nonurban markets, although the impact of interstate banking might be relatively small.

An examination of the experience of other countries suggests that concentration would not reach worrisome levels as long as new charters are easily obtained and thrifts are permitted to offer a wide range of banking services. Concerning the viability of commerical banks, broadening geographic expansion will allow institutions to become more diversified with respect to banking markets, customers and industrial sectors. This should result in safer institutions. The evidence, in toto, strongly supports the continuation of recent efforts to eliminate barriers to geographic expansion in banking. ■

The authors are economists at the Federal Reserve Bank of Chicago. The views expressed are those of the authors and do not necessarily reflect those of the Federal Reserve Bank of Chicago.

[13] While most of the evidence presented in this article focuses on the benefits of liberalizing branching restrictions, studies of the effects of expansion by bank holding companies reveal similar, if somewhat weaker, results. The studies conclude that entry by bank holding companies modestly improves performance. For example, see John T. Rose, "Bank Holding Company Affiliation and Market Share Performance," *Journal of Monetary Economics*, vol. 9 (January 1982), pp. 109-19; and John T. Rose and Donald Savage, "Bank Holding Company *De Novo* Entry and Banking Market Deconcentration," *Journal of Bank Research*, vol. 13 (Summer 1982), pp. 96-100.

X2

HOUSE BILL 151
BANK RESTRUCTURE ACT
20 QUESTION & ANSWERS

BY MONTANA BANKERS ASSOCIATION

BANKING

1. What about local control?

   Owners and management of ALL banks establish loan authority and other policies today as they have in the past. Whether it is bank or a branch does not make any difference. Banks usually rely on a Community Advisory Board for branches. Some family owned banks only have family members on their boards.

2. What does a bank board do?

   Most financial institutions have a local Board for counsel and to help market services. **Community Advisor Boards are used with branches for the same purpose but without fiduciary liability for the directors.**

3. Where are deposits invested?

   Deposits of ALL financial providers are invested for yield and liquidity. ALL banks prefer to make local loans for higher yields and to help the community grow. All financial providers invest excess deposits outside their community just like individuals, businesses, schools and governments.

4. Who approves loans?

   In all banks and branches, every officer has a **loan authority limit established by the owners and management.** Loans in excess of that amount are approved by senior management and owners whether it is a branch or bank (or group of banks) which may be owned by an individual or a family (who may live in-state or out-of-state), or shareholders of publicly traded stock in large multi-state systems.

5. Why are some banks opposed to change?

   All there is to fear is fear itself. Progressively minded bankers recognize the need to grow to get economies of scale to be competitive with other financial providers. **HB-151 bill allows small locally owned independent banks to expand, thereby making them stronger and more competitive.**

6. What if I want to sell my bank?

   This bill enhances the salability of a bank to other Montana bank(s) through a merger and exchange of stock. **Since deregulation in 1980 the value of small non-publicly traded bank stock has dropped about half due to a decrease in market share and earnings.**

EXHIBIT 2
DATE 1/18/89
HB 151

7. Does HB-151 hurt any bank?

No.

8. What has been the experience elsewhere?

South Dakota has had statewide branching for 30 years. They still have 135 banks **(129 are independent)** but also have 150 branches for a total of **280 outlets compared to Montana's 170.** Their population is approximately 100,000 fewer than Montana, yet there is greater consumer convenience. SD also has about the same number of credit unions, savings & loans, and other financial providers.

North Dakota allowed mergers in 1987. Since then First Bank and Norwest have merged reducing the number of banks from 177 to 160. They also have 75 branches for **235 outlets, or 65 more outlets** for 200,000 fewer people **than Montana.** They also have 75 credit unions and 6 S&L's with 80 branches.

Wyoming allowed mergers in 1987 which has been taken advantage of by two major bank systems. Failed banks may be operated as branches.

Kansas passed a merger/branching law in 1987. **Most branching activity has been done by small community banks.**

Nationally, there are **still 13,500 banks** and over 58,000 banking outlets, in spite of a loss of 700 failed banks, and interstate banking and statewide branching in most states. New independent banks are constantly being chartered where investors see a need or opportunity.

9. Do other states allow branching?

Thirty states allow statewide branching, **3 states allow national banks to branch statewide de novo as a result of court rulings** and 13 states have branch banking within limited areas. Most geographical restrictions have been dropped or will be dropped. **Montana has been the only state to go backwards** by repealing a law allowing mergers with banks in adjoining counties in 1969. This was after a bank in Butte and Anaconda merged, thereby creating the one bank branch in Montana.

10. What does HB-151 allow? (Upon approval of state banking board)

    1. All multi-banks (2 or more) to merge or consolidate.
    2. A branch in any neighboring town now without a bank.
    3. Buying a failed bank and making it a branch.
    4. Banks to have one detached drive-up in suburbs.
    5. Placement of automated teller machines anywhere in the county and contiguous counties.

11. What does HB-151 not allow?

1. Interstate banking (now allowed in 47 states). **No out-of-state bank can buy a bank in Montana** (unless it failed) such as First Bank, Norwest, or First Interstate Bancorporation.
2. Branching denovo. **No bank can branch in any town which has a bank.**

TAXES

12. Does the MBA bill change the **tax structure** on banks?

No.

13. Do mergers change the amount of income tax revenue paid by banks?

Could increase taxes if a bank merged thus forfieting a net operating loss carry forward. If a bank did not merge the NOL would be deducted from future earnings the same as today. Over the years, a diversified system of banks like a diversified portfolio of stock is **more stable** than a single bank or single stock. Taxes on earnings of any business are unpredictable.

14. What effect does mergers have on taxes?

The state corporation license (income) 6-3/4% tax on all corporations doing business in Montana requires only banks and S&L's to share 80% of said tax with local government. **Distribution is based on deposits** in the branch(s) to the total deposits within the bank or S&L. Taxes are shared with all cities and school districts within the county. **DOR has administered this distribution system for 11 S&L's and 35 branches and one bank branch for 10 years.**

15. What happens if there is a loss?

Any corporation may get tax refunds back 3 years and carry forward said losses up to 7 years. Since bank and S&L income taxes are shared with local government, **counties must make the tax refund** even though said taxes have already been distributed to cities and schools and spent up to 4 years previously. On the other hand, any corporations who merge, all net operating losses carry forward are forfeited thereby potentially increasing tax revenue for government.

PUBLIC INTEREST

16. What has deregulation done to banking?

Since 1980, deregulation has taken off ceilings on all interest rates to both savers and borrowers and allowed others to provide financial services such as Sears, stock brokers, realtors, insurance agents, insurance companies, mortgage companies, finance companies, etc.

Since 1980, the average return on equity for commercial banks nationally has dropped from approximately 14% to 8%. Market share has been steadily dropping and is now down to 29%. Market share in money market funds and other financial providers has steadily increased (doubled in MT Credit unions past 5 years).

17. Are banks competitive?

Banks are still perceived as a public utility and not as a competitor for financial services. As a result, all banks must comply with a host of federal laws and are prevented from selling other financial services such as insurance, securities and real estate. Equipment and compliance costs and geographic restrictions are strangling small banks.

18. How has deregulation affected the consumer?

Deregulation has created more providers of financial services at different prices for the consumer to shop. As a result, the consumer weighs risk, convenience, service and price when deciding where to invest his savings, borrow money, or purchase a financial product like insurance or securities.

19. How does the MBA bill help the consumer?

It enhances competition on interest rates and fees. It provides more convenient outlets. It lets the market place decide which financial provider will succeed, whether it is a bank, S&L, credit union, stock broker, retailer, realtor, insurance agent, mortgage company or finance company. It diversifies and strengthens the banks assuring greater safety and soundness.

20. How does the MBA bill help the economy?

It allows larger loan limits by combining capital for major loans to corporations. Increased competition leads to more lending.

BOTTOM LINE: The Management of any business, bank or branch, independent or system, large or small, national or local, ultimately determines its success or failure. That's what a free market place is all about. Please let banks compete.

3

EXHIBIT 3
DATE 1/18/89
HB 151

INDEPENDENT BANKERS AND OTHERS

TESTIFYING **FOR** HB-151

BANK RESTRUCTURE ACT
BY MONTANA BANKERS ASSOCIATION

House Business
& Economic Development Committee

9:00 a.m.
Jan. 18, 1989

Rep. Bernie Swift, Hamilton
John Cadby, EVP, (MBA), Montana Bankers Association, Helena
Mark Safty, Attorney, Billings & drafter of the bill
Gary Carlson, CPA, Anderson-ZurMuehlen & Co., Helena
Lynn Grobel, President of MBA and First National Bank, Glasgow
Jim Bennett, Imm. Past President of MBA & President, First Citizens Bank, Billings
Mike Grove, President, First National Bank of White Sul. Springs
Sam Dasios, Businessman, Troy, MT
Earl Lovick, Director, First National Bank, Libby
Rock Ringling, Consumer, Helena
John Witte, President, Traders State Bank, Poplar
Marty Olsson, VP, Ronan State Bank
Sam Noel, EVP, Citizens State Bank, Hamilton
John Franklin, President, First United Bank, Sidney
Bob Henry, President, First Security Bank, Missoula
Verna Welch, President, Missoula Bank of Montana
Bob Sizemore, President, Western Bank of Chinook
Rod Smith, President, U.S. National Bank, Red Lodge
Ken Hendrix, President, First National Bank, Twin Bridges
Larry Moore, Cashier, Stockmens Bank, Cascade
Clint Rouse, CEO, State Bank & Trust Co., Dillon
Don Oie, CEO, Citizens State Bank, Scobey
Rex Manuel, Former Legislator representing Montana Bancsystem and Bank System of Montana
Bill Thorndal, President, First Security Bank of Laurel

Letters of support from those who could not be present:

Richard Duncan, Banking Commissioner of South Dakota
John A. Dowdall, President, First Citizens Bank, Polson and former Commissioner of Financial Institutions for Montana.
Alan Pearson, President, Citizens Bank of Montana, Havre
Thomas Hagen, President, First Fidelity Bank, Glendive
Michael Miller, President, First National Bank, Wolf Point
Bill Kearns, President, State Bank of Townsend
Robert J. Gersack, President, First National Park Bank, Livingston
Carl B. Bear, President, InterWest Bank of Montana, Bozeman
H. Richard Hansen, EVP, Farmers State Bank, Worden
John D. Lawrence Jr., President, Farmers State Bank, Worden
R.D. Aanenson, VP/Cashier, First Citizens Bank, Bozeman
Richard K. Sinclair, EVP, First National Bank, Hysham
Bruce B. Ellis, Chairman/CEO, Montana Bancsystem, Inc., Billings
Albert A. Martens, President, First State Bank, Forsyth

38 Total - **97 banks, a majority of Montana's banks voted for HB-151.**

CELEBRATE THE CENTURY
1889 · 1989
South Dakota

Department of Commerce and Regulation
DIVISION OF BANKING
State Capitol — 500 East Capitol
Pierre, South Dakota 57501-5070
Phone 605/773-3421

SOUTH Dakota

TO	INITIAL	CHECK	NAME
John		For Your Information	
Keysha		Mail Copy To	
Michelle		Handle it	
Sharon		Return Original To	
Bev		File	
Lyn			

January 12, 1989

Jim Cadby
Executive Vice President
Montana Bankers Association
1 No. Last Chance Gulch
Helena, Montana 59601

Dear Mr. Cadby:

This letter is written in response to your inquiry regarding the significance of branch banking in South Dakota.

As the chief regulator of state chartered banks in our state, I am primarily concerned with the safety and soundness of our banks as well as seeing to it that the people of South Dakota receive good banking service.

We have had a liberal branch banking law for a number of years. The benefits of this law can be seen almost daily in South Dakota.

Most of the banks in small communities are facing an earnings squeeze because of federal laws that have deregulated banking and have allowed everyone to get into banking activities, as for example, auto companies on auto financing, insurance companies who now receive many of the deposit accounts that used to go to local banks and who now make loans that used to be made by local banks.

Between credit cards and the Federal Farm Credit Services, a substantial amount of business is being shifted away from banks to other entities.

The principal owners of many small independent banks in South Dakota have, for various reasons, sold their banks to other area banks, many of which are also independent banks. Some bankers have sold because they want to retire and they have no one who wants to take over, or because the banks have become less profitable because of deregulation, etc. Most of those smaller banks are made branches of other area banks. Without branching authority, the owners of these smaller institutions would, in most cases, not have a market to sell their bank, since in most cases only other area banks are interested in these institutions.

Without branch banking many of these banks would have to close, thereby depriving the smaller communities of banking services, or the banks would remain open as economically unfeasible institutions, which would ultimately fail or become so small as to be unable to service the borrowing needs of the community.

I might add that concerns that large banking concerns, such as Norwest and First Bank, would gobble up the smaller independent banks has proved to be unfounded. In fact, Norwest and First Bank have sold off a number of their branches to smaller independent banks because they found they could not be competitive with a well run local bank facility.

For these and other reasons, I strongly feel that branch banking has been, and will continue to be, an important part of keeping banks in South Dakota strong and in servicing small communities in our state.

Very truly yours,

Richard A. Duncan
Director of Banking

RAD:jmp

1st citizens bank
of polson
213 1st STREET WEST / POLSON, MONTANA 59860

January 13, 1988

Mr. John Cadby
Montana Bankers Association
1 N. Last Chance Gulch
Helena, Montana 59601

Dear John:

This is to inform you that I support the Montana Bankers Association's approach to branch banking.

I've been in banking over 30 years and I'm mighty tired of this constant wrangling between bankers. I would remind you, I was Superintendent of Banks for the State of Montana under Forrest Anderson, 1969-1973, and got a real in-depth look at banking in Montana at that time.

I have always felt the bankers have been fighting the wrong fight. My fellow bankers should be more concerned about Savings & Loan Association and Credit Union branching than bank branching. I have talked with numerous bankers in branching states and from those conversations, and from my years of banking experience, I have concluded, it is now time for branching in Montana. We should always remember that banking is not for bankers but for the people. The people give us the charters and they should be served. Branching will do a better job of serving the people.

Sincerely yours,

John

John A. Dowdall
President

JAD:se

CITIZENS
BANK OF MONTANA
P. O. BOX 831, HAVRE, MONTANA 59501

January 12, 1989

John T. Cadby
Executive Vice President
Montana Bankers Association
1 North Last Chance Gulch
Helena, Montana 59601

RE: Bank Structure, Merger / Consolidation Bill

Dear John,

I had plans to personally testify in support of the above described legislation before the House Business & Labor Committee hearing on January 18, 1989, however that is the same date of the Annual Meeting of Citizens Bank of Montana, therefore I will not be able to attend.

Although I will not be able to attend the hearing, this letter authorizes the Montana Bankers Association on behalf of Citizens Bank to voice our strong support in favor of the Bank Structure Bill.

Approval of this legislation will make Montana's Banks more competitive and allow them to survive during these tough economic times. Passage of this Bill would also provide banking services to communities that do not have a financial institution at this time. Montana Banks need the flexability to deal with their problems. Several banks in Montana are in financial trouble as indicated by our large percent of non - performing loans and low bank earnings.

Groups and task forces from out of State as well as in State have called for modernization of Montana's Banking Laws. These recommendations, included in the Bank Structure Bill can only make Montana's economy stronger, while protecting rural Montana communities from losing its banks.

Thank you for your assistance in getting this important piece of legislation passed in this session of the Legislature.

Sincerely Yours,

Alan Pearson

Alan L. Pearson
President

ALP:mkr

CC: Bob Bachini
State Representative
Capital Station
Helena, Montana 59620

First Fidelity Bank

319 N. Merrill Ave.
P.O. Box 811
Glendive, Montana 59330
406-365-8282

"THE BANK"

January 12, 1989

John Cadby
Executive Vice President
Montana Bankers Association
1 N. Last Chance Gulch
Helena, MT 59601

Dear John:

This is just a brief letter to tell you that our Bank is in support of the MBA Bank Restructuring Act. By the time you receive this letter, I will have had an opportunity to voice our support to our representative in Helena, John Johnson.

If I can be of any future service, please do not hesitate to call on me.

Sincerely yours,

Thomas Y. Hagan
President

TYH:lmh

CITIZENS FIRST NATIONAL BANK

Box 698, Wolf Point, Montana 59201 (406) 653-2010

January 12, 1989

John Cadby, Executive Vice President
Montana Bankers Association
1 North Last Chance Gulch
Helena, Montana 59601

Dear Mr. Cadby,

This letter is to express my support of the Montana Bankers Association Bank Restructuring Act which our Montana Legislators will soon be considering. I feel that this bill will be beneficial to the future structuring of Banks in our state and will allow Banks an opportunity to provide improved service to their customers.

Sincerely,

Michael D. Miller

Michael D. Miller
President
Citizens First National Bank of Wolf Point

MDM:lw

THE STATE BANK OF TOWNSEND
SINCE 1899

P.O. Box 488 • Townsend, Montana 59644
Telephone (406) 266-3176 • (406) 442-2472

January 12, 1989

House Business Administration Committee
State Capitol
Helena, MT. 59601

Dear Committee:

The State Bank of Townsend supports the Bank Restructure Bill (Bill #HB19) and urges your approval of this legislation.

Thank you for your consideration of this request.

Sincerely yours,

J. William Kearns, Jr.
President

JWKJr:rkn

First National
Park Bank

First National Park Bank in Livingston
P.O. Box 672
Livingston, Montana 59047
406 222-2950

January 13, 1989

Montana Bankers Association
1 North Last Chance Gulch
Helena, MT 59601
Attention: John Cadby

Dear John,

The Directors and Officers of The First National Park Bank in Livingston, Montana, whole-heartedly support the Montana Bankers Association Bank Restructuring Act. If we are unable to attend the committee hearing scheduled for Wednesday, January 18, to personally express our support for the MBA Bank Restructuring Act, we would ask that you convey our support to the committee.

Thank you.

Sincerely Yours,

Robert J. Gersack
President

RJG/nh

InterWest
BANK OF MONTANA

January 13, 1989

Mr. John T. Cadby
Executive Vice President
Montana Bankers Association
1 North Last Chance Gulch
Helena, MT 59601

Dear John:

It is long overdue for the Montana Banking Industry to get in step with the rest of the country.

As such, InterWest Bank is in full support of the Bank Restructuring Bill recently introduced by the Montana Bankers' Association as HB 151.

Yours truly,

Carl B. Bear

Carl B. Bear
President

Box 1926 • 1632 West Main • Bozeman, MT 59771-1926 • (406) 587-1231

Farmers State BANK

TELEPHONE 967-3612 • WORDEN, MONTANA 59088

JOHN D. LAWRENCE, JR. H. RICHARD HANSEN

January 12, 1989

John T. Cadby
Executive Vice President
Montana Bankers Association
1 No. Last Chance Gulch
Helena, Montana 59601

Dear John;

This will serve as notice that I am 100% behind the Bank Restructure Bill proposed by MBA. It is my understanding that this Bill is to be presented to the legislature this session. I give my whole hearted support to the passage of this Bill.

I feel that it is paramount that the legislature pass this Bill as to the survival of all small community Banks

Sincerely,

H. RICHARD HANSEN
Executive Vice President

HRH:cw

Farmers State BANK

TELEPHONE 967-3612 • WORDEN, MONTANA 59088

JOHN D. LAWRENCE, JR. H. RICHARD HANSEN

January 12, 1989

John T. Cadby
Executive Vice President
Montana Bankers Association
1 No. Last Chance Gulch
Helena, Montana 59601

Dear John;

This will serve as notice that I am 100% behind the Bank Restructure Bill proposed by MBA. It is my understanding that this Bill is to be presented to the legislature this session. I give my whole hearted support to the passage of this Bill.

I feel that it is paramount that the legislature pass this Bill as to the survival of all small community Banks.

Sincerely,

JOHN D. LAWRENCE JR.
President

JDL:cw

FIRST CITIZENS BANK OF BOZEMAN · 2800 West Main Street · P.O. Box 578 · Bozeman, Montana 59715 · (406) 586-4555

January 13, 1989

Business Administration
State Capital Building
Helena, MT 59601

Dear Gentlemen:

After years of research and a lot of hard work, we would like to commend you and voice our approval of the Montana Branch Banking Legislation.

Very truly yours,

R. D. Aanenson
Vice President & Cashier

RDA:nls

THE FIRST NATIONAL BANK

IN HYSHAM

HYSHAM, MONTANA 59038

January 13, 1989

John T. Cadby
Executive Vice President
Montana Bankers Association
1 No. Last Chance Gulch
Helena, Montana 59601

Dear John:

This will serve as notice that I am 100% behind the Bank Restructure Bill proposed by MBA. It is my understanding that this Bill is to be presented to the legislature this session. I give my wholehearted support to the passage of this Bill.

I feel that it is paramount that the legislature pass this bill as to the survival of all small community banks.

Sincerely,

Richard K. Sinclair
Ex. Vice President

bw

Montana Bancsystem, Inc.
2721 Second Avenue North
Billings, Montana 59101
Telephone
(406) 248-3633
Fax. #
(406) 245-9552

January 13, 1989

Mr. John Cadby
Executive Vice President
Montana Bankers Association
1 No. Last Chance Gulch
Helena, MT 59601

Dear John:

My schedule will not permit me to attend the hearing to be held on January 18, 1989 on the MBA backed Bank Restructure Bill. I very much regret that that is the case as Montana Bancsystem, Inc. strongly supports the passage of this particular piece of legislation.

It is our view that this carefully drafted legislation is the only proposal that will likely come before the Legislature this session that will give the state the capability to maintain full service banking in smaller and more remote communities of Montana. In addition, it permits the modernization of our larger banks to more effectively compete in a deregulated marketplace. Its support from all segments of the banking industry in this state speaks to its need and value.

Best wishes during the course of the hearing and in the progress of the bill before the House.

Sincerely,

Bruce B. Ellis

Bruce B. Ellis
Chairman & CEO

BBE/kjb

FIRST STATE BANK OF FORSYTH

Box 379
Forsyth, Montana 59327
406 356-2112

January 13, 1989

John Cadby, Executive Vice President
Montana Bankers Association
1 North Last Chance Gulch
Helena, Montana 59601

Dear John:

This is to advise that we do support the Montana Bankers Association Bank Restructure Act.

Sincerely,

Albert A. Martens

Albert A. Martens
President

hhb

4

MONTANA BANKERS ASSOCIATION
FIVE POINT BANK RESTRUCTURE BILL

Approved by secret ballot 97 to 59, 1 abstaining bank or a 62% majority of MBA members and a majority of all banks in Montana.

The Bill allows:

1. All multi-banks (2 or more) to merge and consolidate.

2. A branch in any town without a bank (restricted to banks' county and contiguous counties).

3. Buying a failed bank and making it a branch.

4. Banks to have one detached drive-up as far as 3000 feet beyond city limits.

5. Placement of an Automated Teller (cash) Machine (ATM) anywhere in county and contiguous counties.

Does not allow:

1. Interstate banking (an out of state bank cannot buy a bank(s) in Montana.)

2. City-wide, county-wide or state-wide branching.

3. Branches in any town which has a bank.

4. Out-of-state bank holding companies to purchase banks (except failed banks) and make them branches. In-state holding companies could do this.

Taxes:

The 6-3/4% state corporation income tax on banks, (80%) would be distributed to branch counties the same as has been done for the 35 savings and loans branches and the one (1) bank branch for the past 10 years.

EXHIBIT 4
DATE 1/18/89
HB 151

ANDERSON ZURMUEHLEN & CO., P.C.
Certified Public Accountants
Power Block Building • Second Floor
6th & Last Chance Gulch • P.O. Box 1147, Helena, MT 59624 • (406) 442-3540

January 16, 1989

EXHIBIT 5
DATE 1/18/89
HB 151

MEMO TO: Montana Bankers Association

FROM: Gary B. Carlson, CPA

RE: Montana Independent Bankers Report
Dated March 11, 1987 On Senate Bill 198

INTRODUCTION

In March of 1987, the Montana Independent Bankers (MIB) submitted a report (Attachment A) to the Montana Legislature asserting that a bank merger and consolidation bill (SB198) would cause Butte-Silver Bow to lose income tax revenue from local banks. The MIB report was inaccurate and misleading for a variety of reasons that will be explained in this memorandum. In fact, Butte's tax revenues from banks declined more than 40% during the period 1985 to 1987, but not for the reasons asserted in the 1987 report. Indeed, SB198 did not pass the 1987 Legislature, so it certainly was not because of merger and consolidation that Butte-Silver Bow lost tax revenues. The real reason is that bank earnings subject to tax are frequently variable from year to year. The omissions and misstatements of the MIB report are presented below.

1. THE MIB REPORT WAS MISLEADING ON THE OPERATION OF THE BANK MERGER BILL

As a general observation, the report is misleading as to the immediate impacts of SB198. It is my understanding the first opportunity for a bank to operate under this defeated legislation would have been January 1, 1988. The MIB report throughout indicated that 1986 tax revenues collected from the financial institutions would be affected. This is not an accurate interpretation. Indeed, the conclusions of the report on the last page are misleading. SB198 would not have impacted the Corporation License Tax revenues in 1986 or 1987 if it had passed.

2. THE MIB REPORT WAS MISLEADING ON THE TAX IMPACTS OF BANK MERGER

Additionally, the report speculates that the passage of SB198 would result in the loss of significant portions of tax revenue at the Butte-Silver Bow level. This conclusion appears only to address the possibility that a merger would always result in lowering the overall income of a merged group--when in fact speculation could also result in the argument of increased tax revenue because the group income resulting in a favorable impact to the tax revenue allocated to Butte-Silver Bow.

3. <u>THE MIB REPORT FAILS TO REVEAL THE TAX IMPACTS OF MERGED FINANCIAL INSTITUTIONS IN BUTTE</u>

There are two financial institutions (possibly three depending on Prudential Federal Savings) which currently pay Corporation License Taxes to Butte-Silver Bow based on the entity taxes allocated by deposits - Norwest Bank and American Federal Savings. Within either of these two entities, Butte-Silver Bow <u>could</u> have received increased <u>or</u> decreased allocated tax revenue.

4. <u>THE MIB REPORT FAILS TO USE PROPER TAX DATA</u>

The report refers to the Sheshunoff reports as providing substantiating information as to the <u>potential</u> impacts of merger, resulting in an overall system tax loss. An important point is that the Sheshunoff reports are submitted based on the financial institutions <u>book income</u>. Often times there are <u>substantial differences</u> between <u>book</u> and <u>taxable</u> income. The report did not disclose that this variation could be possible.

5. <u>THE MIB REPORT FAILS TO RECOGNIZE THE UNPREDICTABILITY OF BANK TAXES</u>

The collection of Corporation License Tax revenues is somewhat unpredictable since it is measured by taxable income. Butte-Silver Bow <u>Tax revenues are subject to the operating success</u> of each of the financial institutions for determination of taxable income, resulting in the Corporation License Tax collected. Revenues collected in 1986 and 1987 are lower than 1985. Based on information available to me, 1985 is the largest revenue year for Butte-Silver Bow in the five (5) year period 1983-1987.

6. <u>THE MIB REPORT IS MISLEADING BECAUSE IT FAILED TO DISCUSS THE TAX IMPACTS OF NET OPERATING LOSSES</u>

Additionally, the MIB report did not address or disclose that all net operating loss (NOL) carryforwards existing at a point of merger are immediately lost. Therefore, future tax year incomes could not be offset by any existing carryforward losses. SB198 would <u>not</u> have changed Montana statutes regarding banks with NOL's.

7. <u>THE ACTUAL TAX REVENUES FOR BUTTE-SILVER BOW ARE DIFFERENT THAN PREDICTED</u>

The 1987 MIB report projected that merger would reduce local tax revenues. It implied that without merger, tax revenues would continue as they had during the period 1983-1985. In fact, without merger, revenues decreased from $349,912 in 1985 to $200,098 in 1987.

SCHEDULE OF BUTTE-SILVER BOW SELECTED CORPORATION LICENSE TAX REVENUE

	BANK A	BANK B	BANK C	BANK D	TOTAL
1983*	$ 21,925	$ 8,928	$ 49,372	$ 21,152	$101,377
1984*	100,150	2,533	64,650	51,234	228,567
1985*	235,229	2,391	66,743	45,549	349,912
1986@	146,738	40	43,398	32,487	222,663
1987@	89,324	40	62,211	48,523	200,098
1986 Refund@		(13,732)			(13,732)

* MIB Report
@ MBA Information From Banks

Additionally, Bank B has a $252,000 net operating loss carryforward which will offset future taxable earnings, thereby eliminating $13,600 of corporate license tax payments to Butte-Silver Bow.

The above demonstrates conclusively that bank incomes fluctuate. Therefore, it appears that one cannot predict an absolute upward, stable or downward pattern for the taxable income of the Butte banks.

The above schedule of Corporation License Tax revenue illustrates the cyclical nature of the revenue collection. The information is shown for the four system banks located in Butte-Silver Bow. The four banks in the period 1983-1985 paid between 97% and 99% of the Corporation License Taxes paid to Butte-Silver Bow. The information for the years 1983-1985 is from the MIB report. The information for 1986 and 1987 is computed from information provided by the bank systems to the MBA. It is possible the amounts computed will reflect small differences when compared to the Butte-Silver Bow treasurer reports. The possible differences could arise due to timing differences in the county fiscal year reporting of collections compared to the banks filing Corporation License Taxes on a calendar year end; which depending upon the return filing date, extensions to file, payment of tax estimates, subsequent amended returns, and claims for refunds due to net operating losses; could all result in a timing difference.

SUMMARY

Butte-Silver Bow Corporation License Tax revenues did in fact go down from the 1985 amounts as the MIB report indicated. However, SB198 did not impact the revenues, because it was not enacted; the operations and profitability of the banks resulted in the decreased revenue.

The MIB report indicated the passage of SB198 by the 1987 Legislature would have resulted in Butte-Silver Bow receiving no Corporation License Tax revenue from Bank C (above). This statement was incorrect--1986 and 1987 revenue collections would not have been impacted one way or another by SB198 which was introduced with an effective date of January 1, 1988. Additionally, it is unknown whether or not any of the systems would have completed a merger at that time (1/1/88).

CONCLUSION

I have reviewed MBA's one page legislative fact sheet on tax implications of merger (Attachment B). It is my professional judgement that MBA's discussion of tax consequences as a result of merger presents an accurate picture of what local governments might expect if a bank merger bill is enacted. At the very least, MBA's analysis is more valid than the numerous erroneous statements offered by MIB to the Montana Legislature in 1987.

The fact that merged banks must forfeit any NOL carryforwards existing at time of merger suggests that merger will not be used by banks as a tool to reduce their tax payments to local governments.

Perhaps the most conclusive statement I can make is that the future tax revenues from banks will depend more on the health of local economy's than on bank merger legislation. Bank merger legislation may help stabilize bank tax revenues in Montana, but only time will tell.

A

MONTANA INDEPENDENT BANKERS

REPORT ON SENATE BILL 198

MARCH 11, 1987

NEWLAND, HORN, CRIPPEN & PECK, P.C.
Certified Public Accountants

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William B. Horn
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Ronald W. Wagner
Ronald W. Hanni
John F. Burns
Richard L. Tamblyn

March 11, 1987

Montana Independent Bankers

2030 11th Ave, Suite 22

Helena, Montana 59601

Dear Sirs:

This report is the result of our study of Senate Bill 198 as it relates to potential lost corporation tax revenues for Butte-Silver Bow and the School Districts within Butte-Silver Bow.

In accordance with Sections 15-21-701 and 702, M.C.A., the Department of Revenue must transmit 80% of the corporation license tax revenue received from Banks and Savings & Loans to the county in which the business is located. For the years 1985, 1984 and 1983, Butte-Silver Bow has received $358,453, $219,730 and $102,478 respectively, from the Department of Revenue's compliance with these aforementioned statutes. These amounts were obtained from the Butte-Silver Bow Treasurer. The 1986 information is not available, since the corporation license tax returns for 1986 have not been filed. If Senate Bill 198 would pass and become law, Butte-Silver Bow would most certainly lose a major portion of this revenue. A loss of this nature would be devastating to our local government and school systems. Of the total received by Butte-Silver Bow, $232,990, $142,820, $66,600, has gone to the School Districts, respectively, for 1985, 1984 and 1983.

The Banks and Savings & Loans in Butte-Silver Bow are:

(1) Norwest Bank;

(2) First-Bank-Butte;

(3) First Citizens Bank;

(4) Miners Bank;

(5) Montana Bank;

(6) Prudential Federal Savings and Loan; and

(7) American Federal Savings & Loan.

Based on information received from the Butte-Silver Bow Treasurer, corporation license tax revenue has been received from taxes paid by the following banks and savings and loans as listed below:

	1985	1984	1983
First Citizens Bank	$ 24.40	$ 24.40	$ 40.00
American Federal Savings	8,516.91	1,096.84	1,018.08
First Bank - Butte	235,228.80	100,149.58	21,924.98
Miners Bank	2,391.20	2,532.80	8,928.00
Norwest Bank	66,742.69	64,649.73	49,372.39
Montana Bank	45,548.80	51,234.00	21,152.00
Prudential Federal Savings	0.00	42.40	42.40
	$358,452.80	$219,729.75	$102,477.85

If Senate Bill 198 is passed, Butte-Silver Bow would lose a significant portion of this much needed revenue. A discussion of the losses follows:

Norwest has five banks in Montana in the 100 to 499 million dollar asset size. These banks are (1) Norwest Bank of Kalispell; (2) Norwest Bank of Helena; (3) Norwest Bank of Anaconda, Butte; (4) Norwest Bank of Great Falls; and (5) Norwest Bank of Billings. Sheshunoff publishes figures of income or (loss) and has accumulated this information from reports released by the Federal Reserve Bank Board. Sheshunoff's September 30, 1986 report, which would be the banks earnings or (losses) through the third quarter, showed the following income and (loss) for Norwest Banks:

1. Norwest Bank - Billings	($4,535,000)
2. Norwest Bank - Great Falls	($ 886,000)
3. Norwest Bank - Anaconda, Butte	$ 859,000
4. Norwest Bank - Helena	$ 671,000
5. Norwest Bank - Kalispell	$ 802,000

It is quite evident that if Senate Bill 198 passes that the surviving corporation ~~consolidated tax~~ will incur a loss. ~~returns will be filled in Billings~~. If that occurs no tax will be paid by Norwest because the huge losses in Billings will be offset against the profits in Anaconda, Butte, Helena and Kalispell. Therefore, based on this data and the amount of state corporation taxes paid to Butte-Silver Bow for Norwest, which was $66,743 for the 1985 tax year would be entirely lost. This is further substantiated by the fact that year-to-date profits of Norwest Bank of Anaconda, Butte, through September 30, 1986 are very comparable to 1985 income figures.

First Bank has six banks in Montana in the 100 to 499 million dollar assets size. These banks are (1) First Bank Western of Missoula; (2) First National Bank of Great Falls; (3) First National Bank of Bozeman; (4) First National Bank of Helena; (5) First Bank-Butte; and (6) First Bank of Billings. Sheshunoff's September 30, 1986 report showed the following income and (loss) figures:

1. First Bank Western-Missoula	$1,448,000
2. First National Bank of Great Falls	$ 788,000
3. First National Bank of Bozeman	($ 274,000)
4. First National Bank of Helena	$ 945,000
5. First Bank-Butte	$1,061,000
6. First Bank of Billings	($4,680,000)

As with the Norwest Banks, it is quite obvious that a ~~consolidated~~ Surviving Corp return will b filed in Billings for the First Bank System. If this occurs no tax will be paid by the First Bank System since the losses in Billings will offset any profits in Great Falls, Helena, Butte and Missoula. When comparisons are made between the 1985 net income figures and the first nine months of 1986 for First Bank-Butte, a reduction is evident. Sheshunoff reported net income of $2,312,000 for 1985 and $1,061,000 for the first nine months of 1986. For tax year 1985, Butte-Silver Bow received $235,230 from the First Bank System. Based on these reduced income figures, Butte-Silver Bow will receive approximately $143,900 for the 1986 tax year if Senate Bill #198 is defeated. This is calculated by annualizing the $1,061,000 and applying that figure to the prior years data. If Senate Bill 198 passes, Butte-Silver Bow would receive nothing.

In summary, if Senate Bill 198 passes, Butte-Silver Bow would lose an estimated $210,650 per year, based on 1986 data from lost revenue from Norwest and First Bank Systems banks. As stated earlier, our local government and School Systems cannot suffer this loss.

Very truly yours,

Richard L. Tamblyn, C.P.A.

#8

ANDERSON ZURMUEHLEN & CO., P.C.
Certified Public Accountants
Power Block Building • Second Floor
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January 17, 1989

EXHIBIT 5
DATE 1/18/89
HB 151

MEMO TO: Montana Bankers Association

FROM: Gary B. Carlson

RE: Montana Independent Bankers (MIB) Letter
Dated January 13, 1989

You have asked me to respond to the latest MIB letter (copy attached) dealing with the tax impacts of merger. As was the case in 1987, MIB is misrepresenting the local tax consequences of bank structure legislation. Let me provide specifics.

1. <u>MIB'S STATEMENTS ABOUT NORWEST BANK SYSTEM ARE INACCURATE</u>

MIB erroneously suggests that merger would have reduced Norwest 1987 tax payments from $348,000 to $156,000 statewide. The actual taxes paid to the state and localities is quite different from MIB's figures. Cascade and Yellowstone counties would <u>not</u> have lost <u>any</u> tax revenue contrary to MIB's assumption. The reason quite simply is that Norwest's banks in Cascade and Yellowstone counties lost money in 1987. The merger bill would <u>not</u> effect these 1987 facts following the MIB <u>hypothetical</u> merger.

2. <u>MIB'S ANALYSIS IGNORES THE ROLE THAT NET OPERATING LOSSES WILL PLAY IN BANK'S DECISION TO MERGE</u>

MIB erroneously assumes that all banks will merge. Actually, factors other than tax issues will most likely impact each systems decision. If individual banks within the system have net operating loss (NOL) carry-forwards, a system may decide to <u>NOT</u> MERGE. The reason, quite simply, is that NOL's are forfeited upon merger.

3. <u>ONCE AGAIN, MIB FAILS TO USE PROPER TAX DATA</u>

MIB uses published bank condition reports in their assumption process. The published reports are <u>not</u> on an <u>income tax basis</u> of reporting, but <u>rather</u> on a <u>book basis</u>, which <u>many times vary greatly</u>. The MIB letter does not disclose this possible variation.

4. MIB IGNORES THE IMPACTS OF PROFITS ON TAX REVENUES

NO ONE can say with any accuracy that 1987 is the correct base year to use for projecting the impact of merger, as suggested by the MIB letter. The amount of corporate license tax paid is a function of profitability. 1987 is a year which bank profits within Montana appear to have significantly declined - a major economic issue for the state. An alternative year to substitute for MIB's theoretical assumption report could be 1984 - a year of about four times the amount of taxable income for system banks above 1987, if the request to assume hypothetical merger took place historically has any merit.

SUMMARY

MIB continually portrays a pessimistic attitude about loss of tax revenue. The future could be optimistic with the merger bill providing stability and helping achieve enhanced profitability (therefore more tax revenues). Only time will tell.

Montana Independent Bankers

2030 11th Ave., Suite 22
Helena, MT 59601
(406) 449-3811

January 13, 1989

House Committee on Business
& Economic Development
Robert Pavlovich, Chairman
Montana Legislature/State Capitol
Helena, MT 59620

Dear Mr. Chairman and Committee Members:

We feel that the hearing you will give the bank-merger bill next Wednesday, January 18, may not develop enough information for the committee on how many tax dollars the bill will cost local governments and give to the large bank holding companies. The fiscal note on the bill may not be printed by that time, and even if it is, a fiscal note will show the loss of state tax revenue but will not show the effects of bank merger in particular counties.

One of our members has estimated, working from published bank condition reports, that the Norwest system would have reduced its overall state corporation tax on 1987 operations from $348,000 to $156,000 if they had merged into a single corporation that year. While a couple of counties gained a little revenue most of them lost a lot under this estimate. Cascade County, Great Falls, and their school districts would have lost $94,000 of tax revenue from this bank alone; Billings-Yellowstone would have lost $40,000, and the local governments in Silver Bow and Deer Lodge Counties would have been out nearly $50,000. To add the effects of merging the First Banks, Banks of Montana, etc. to this effect would probably make it considerably worse.

We ask the Committee to direct the Department of Revenue to provide the actual tax reductions for each of the big bank systems for 1987, assuming each had filed a single consolidated tax return. Without this information the bank merger bill's harmful effects on Montana cannot be fully assessed.

Sincerely,

HOUSE BUSINESS & INDUSTRY COMMITTEE
HELENA, MONTANA

JANUARY 18, 1989

EXHIBIT 6
DATE 1/18/89
HB 151

MR. CHAIRMAN & MEMBERS OF THE COMMITTEE:

MY NAME IS LYNN GROBEL. I AM THE 1988-1989 PRESIDENT OF THE MONTANA BANKERS ASSOCIATION. I AM ALSO PRESIDENT AND 20% OWNER OF THE FIRST NATIONAL BANK OF GLASGOW AND DIRECTOR AND 30% OWNER OF THE FIRST NATIONAL BANK OF HINSDALE. I AM AN INDEPENDENT BANKER AND HAVE BEEN FOR 30 YEARS, MOST OF THAT TIME AS PRESIDENT OF THE GLASGOW BANK.

I AM HERE TO SPEAK IN FAVOR OF HOUSE BILL 151, A BANK RESTRUCTURE ACT. THROUGH MAILINGS TO YOU WE HAVE OUTLINED THAT THE BILL RECEIVED COMPLETE ACCEPTANCE BY 62% OF THE 157 MEMBERS OF THE MONTANA BANKERS ASSOCIATION. EARLIER THIS YEAR THERE WERE ONLY 12 BANKS IN MONTANA THAT DID NOT BELONG TO MBA. FOR MANY LEGISLATIVE SESSIONS THE MBA HAS NOT TAKEN A POSITION ON THIS SUBJECT. THE MBA BOARD VOTED TO PRESENT THIS BILL AND TAKE A POSITION BECAUSE THEY FELT THERE IS A NEED TO MODERNIZE BANKING STRUCTURE IN MONTANA. THERE IS ONLY ONE OTHER STATE IN THE UNION BESIDES MONTANA THAT IS NOT NOW ABLE TO BRANCH/MERGE/CONSOLIDATE SUCH AS IS PERMITTED IN THIS BILL. OUR PRINCIPAL IN-STATE COMPETITORS, THE S & L'S AND CREDIT UNIONS, HAVE HAD THESE POWERS FOR YEARS. WE FELT THAT NOW IS THE TIME TO LEVEL THE PLAYING FIELD.

EVEN MORE IMPORTANT IS THE NEED TO TAKE ADVANTAGE OF THE ECONOMIES AND EFFICIENCIES MADE AVAILABLE IN A BRANCH BANKING SOCIETY.

THERE DOES NOT SEEM TO BE CONTROVERSY OR OPPOSITION TO SECTIONS OF THE BILL HAVING TO DO WITH AQUISITION OF FAILED BANKS AND THE RESTRICTIONS ON PLACEMENT OF DETACHED TELLER FACILITIES AND ATM'S (AUTOMATIC TELLER MACHINES), SO I WILL NOT DISCUSS THOSE SECTIONS.

THE IMPORTANT SECTION AND THE REAL HEART OF THE BILL IS THE MERGER/CONSOLIDATION SECTION AND BRANCHING. WHY DO NEARLY 2/3RDS OF ~~THE~~ member BANKS IN MONTANA FEEL THESE CHANGES ARE NEEDED? BASICALLY, IT WILL ALLOW BANKS TO PROVIDE FULL SERVICE BANKING TO POSSIBLY MORE COMMUNITIES IN MONTANA AT A LOWER COST TO THE BANK AND AT A LOWER COST TO THE CONSUMER. HOW? SEVERAL WEEKS AGO WE MAILED EACH OF YOU A SUMMARY OF THE BILL AND CERTAIN DEFINITIONS HAVING TO DO WITH UNIT BANK, BRANCHES, MERGER/CONSOLIDATIONS, AND I HOPE YOU HAVE IT WITH YOU AND HAVE HAD TIME TO READ IT OVER.

PRESENTLY UNIT BANKS SUCH AS WE NOW HAVE ALL HAVE THEIR OWN CAPITAL ACCOUNTS, LEGAL LOANING LIMITS, THEIR OWN BOARD OF DIRECTORS. EACH MUST DO ALL THEIR OWN REPORTING TO THE COMPTROLLER OF THE CURRENCY, THE FDIC, THE FEDERAL RESERVE BANKS, THE STATE BANKING ASSOCIATION AND THIS REPORTING IS BECOMING VERY, VERY BURDENSOME. MARTHA SEGER, A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, IS INVESTIGATING THIS BECAUSE SHE BELIEVES THE BURDEN IS SO MUCH THAT IT MAY MAKE IT DIFFICULT FOR SMALLER BANKS TO SURVIVE. WE HAVE HAD SIMILAR COMMENTS FROM SOME BANKERS IN MONTANA. EACH UNIT BANK MUST DO ITS OWN INVESTING OF EXCESS FUNDS AND MAINTAIN ITS OWN LIQUIDITY POSITION DAILY. UNDER MERGER/CONSOLIDATION I WOULD LIKE TO GIVE SEVERAL EXAMPLES: THE BANK AT POPLAR COULD MERGE WITH THE BANK AT SCOBEY BECAUSE IT IS UNDER THE SAME OWNERSHIP. SCOBEY COULD BE THE BRANCH, POPLAR THE MAIN OFFICE. THE BURDEN MENTIONED PREVIOUSLY COULD ALL BE DONE BY THE POPLAR BANK, THUS GIVING THE SCOBEY BANK PERSONNEL MORE TIME TO SPEND ON CUSTOMER NEEDS. THE BANK SYSTEM OF MONTANA BANKS (12 or 13) COULD MERGE. THEY COULD NAME THE GREAT FALLS BANK AS THEIR MAIN OFFICE AND OUTLYING BANKS IN BIG SANDY, HAVRE, CHESTER, RUDYARD AND SO FORTH AS THE BRANCHES. THE BRANCHES WOULD NOT CHANGE IN APPEARANCE OR SERVICES OFFERED. SUBSTANTIAL SAVINGS COULD BE AFFECTED BY PLACING 80-90 ~~89~~% OF THE REGULATORY BURDEN WITH THE MAIN OFFICE, THE DAILY LIQUIDITY NEEDS, INVESTMENT OF EXCESS FUNDS, MARKETING, PURCHASING, BOOKKEEPING, AND OTHER THINGS COULD BE DONE AT THE MAIN OFFICE PERMITTING BRANCH OFFICERS AND EMPLOYEES TO SPEND MORE TIME ON THE NEEDS OF THE CONSUMER.

THE LEGAL LOANING LIMIT OF EACH UNIT WOULD BE SUBSTANTIALLY INCREASED AS EACH BRANCH WOULD ENJOY THE LIMIT OF THE ENTIRE ORGANIZATION. THE BRANCH WOULD NOT HAVE CONCERNS TO DO WITH ADEQUATE CAPITALIZATION. THE REGULATORS SUCH AS MR. FLANDER'S OFFICE SHOULD LOOK WITH FAVOR ON THIS TYPE OF CHANGE AS THEIR OFFICE WOULD BE LOOKING AT THE EXAMINATION OF THE ENTIRE SYSTEM INSTEAD OF AN EXAMINATION OF INDIVIDUAL BANKS, SOME OF WHICH MAY BE UNDERCAPITALIZED, SOME MAY HAVE ASSET PROBLEMS AND SOME, OF COURSE, COULD BE STRONG.

THE OPPOSITION MAY TELL YOU THAT A BRANCH LOSES LOCAL TOUCH WITH A COMMUNITY. PRIOR TO GOING TO WORK IN GLASGOW I WAS A NATIONAL BANK EXAMINER FOR EIGHT YEARS WORKING IN THE NINTH DISTRICT. I HAD THE PRIVILEGE OF EXAMINING BRANCHES IN SOUTH DAKOTA AND SOME BRANCHES IN MINNEAPOLIS AND BELIEVE ME, THEY WERE EFFICIENT OPERATIONS THEN, EVEN 30 YEARS AGO BEFORE THE COMPUTER AGE. THE OFFICERS OF THE BRANCH IN LEAD, DEADWOOD AND SPEARFISH, SOUTH DAKOTA AND OTHER TOWNS WERE GENERALLY LONGTIME RESIDENTS OF THEIR COMMUNITIES BELONGING TO LIONS, KIWANIS, CITY COUNCIL AND SO FORTH.

THE OPPONENTS MAY SAY THAT BRANCHES DO NOT HAVE A BOARD OF DIRECTORS. THIS IS NOT NECESSARILY TRUE. IT DEPENDS ON THE SYSTEM. IN SOUTH DAKOTA EACH BRANCH HAD AN ADVISORY BOARD OF DIRECTORS MADE UP OF SUCCESSFUL AREA INDIVIDUALS TO PROVIDE LOCAL INPUT TO THE BRANCH. IN CONTRAST, A GROUP OF FOUR BANKS IN SOUTH CENTRAL MONTANA, BANKS VIGOROUSLY OPPOSING THIS BILL, HAVE AS DIRECTORS OF THEIR BANKS ONLY MEMBERS OF THE FAMILY THAT OWNS THOSE BANKS. IS THAT PROVIDING LOCAL INPUT TO THE BANK? I SAY NO.

I HAVE NEVER BEEN AGAINST LIMITED BRANCH BANKING IN MONTANA BECAUSE I HAVE SEEN IT WORK TO THE BENEFIT OF THE BANK AND THE CONSUMER. ON MANY OCCASIONS I HAVE BEEN ASKED BY THOSE OPPOSING CHANGE TO ASK MY LEGISLATOR TO OPPOSE ENABLING LEGISLATION. I WOULD NOT BECAUSE I DO NOT FEAR BRANCH BANKING AS I HAVE SEEN IT WORK. I KNOW WE MUST HAVE IT AND IT WILL BE GOOD FOR MONTANA. ONE VERY RABID ANTI-CHANGE BANKER SOME YEARS AGO TOLD ME IF I DIDN'T TALK TO MY LEGISLATOR THE BILL COULD PASS AND I WOULD "KILL THE GOOSE THAT LAID THE GOLDEN EGG." "KILL THE GOOSE THAT LAID THE GOLDEN EGG." WAS THAT BANKER THINKING ABOUT THE CONSUMER OR HIS CUSTOMER, OR MORE POSSIBLY ONLY HIS PERSONAL FINANCIAL INTEREST IN BANKING? BANKING HAS BEEN FINANCIALLY REWARDING BUT I ASK AS YOU HEAR THE OPPOSITION, PLEASE KEEP THIS POINT IN MIND. IS THIS BILL GOING TO "KILL THE GOOSE THAT LAID THE GOLDEN EGG" OR BE A BILL THAT IS GOING TO BE GOOD FOR BANKING IN MONTANA AND FOR THE BANKING CONSUMER.

<u>IN CONCLUSION</u>, HOUSE BILL 151 IS <u>GOOD</u> PROGRESSIVE LEGISLATION THAT WILL ALLOW THE BANKING COMMUNITY TO COMPETE ON A MORE EQUAL PLANE WITH OTHER PROVIDERS OF FINANCIAL SERVICES; THE ECONOMIES AND EFFICIENCIES REALIZED WILL BENEFIT THE BANK, ESPECIALLY THE SMALL BANK, AND THE CONSUMER. SOUTH DAKOTA, A STATE OF SIMILAR SIZE THAT HAS HAD BRANCHING FOR OVER 30 YEARS, HAS 130 BANKS AND 150 BRANCHES FOR A TOTAL OF 280 BANKING OUTLETS. MONTANA HAS 169 BANKING OUTLETS AND WILL HAVE FEWER IF OUR SYSTEM IS NOT MODERNIZED AS THIS BILL PROVIDES.

THANK YOU FOR YOUR TIME AND IF YOU HAVE QUESTIONS AT THIS TIME OR AT A LATER TIME, I WOULD BE GLAD TO RESPOND.

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Mr. Chairman, Members of the Committee:

My name is John Witte. I am President of the Citizen's State Bank of Scobey, Trader's State Bank of Poplar, and Northeastern Montana Bank Shares, a multi-bank holding company which owns these two banks along with Northeastern Montana Insurance Agency which has insurance agenices in both banks. I have been in banking for almost forty years, all of it spent in Eastern Montana, and without fear of bragging, I can honestly say that I consider myself one of the leading innovative community and agricultural bankers in this Great State. I was also one of the organizers of the Montana Independent Bankers in 1968, served on its board of directors, was President in 1972, and stopped paying dues several years ago because of the Independents' unyielding attitude towards merger and consolidation and the continual fight every two years in this Legislature. In a letter acknowledging my withdrawal, the secretary of the organization wrote, and I quote, "the real loss to the organization will be the loss of the voice of dissent. You had the ability to challenge decisions and offer alternatives and that will be sorely missed. We need more of it; not less."

A lot of water has gone over the dam since we formed the M.I.B. in 1968 for the main purpose of repealing an old piece of legislation which said that "banks in the same county or contiguous coutnies could merge and maintain separate banking offices." Norwest took advantage of this law with the Anaconda-Butte merger, and the M.I.B. had that legislation repealed in 1969. There have been many times in the past five-six years of drought, when we lost two million dollars in one bank, that I wished that law was still on the books. But we weathered the storm and our banks are strong.

Let's review what has happened in my almost forty years of banking in Montana. I remeber when Ed Towe came to Montana in the 50's and bought the First National Bank in Circle, and over the next15-20 years or more expanded to 12 banks and sold out to the so-called Kuhn chain, a group of Ohio investors. Dick and Charlie Rubie, from their base in Havre, expanded to 14 banks and sold to the Adams chain, a Minneapolis-based group of investors. The Scott chain, a Montana-based holding company, has expanded to ~~8~~ 7 banks. The Yellowstone banks have 4, and there are many 2,3,4, bank holding companies. If you are to follow the definition of the Independent Bankers of America that "an independent bank is one that is locally owned and controlled", there aren't too many independents left, but many small multi-bank holding companies, with local Montana ownership, serving their communities.

In my younger years in the banking business, we had none or very minimal competition from the S&L's and the Credit Unions. Today, they, along with the brokerage houses, insurance companies, J.C. Penney, Sears Roebuck, you name it, they're popping up every day, and are draining off more and more of our depositors' dollars that we need to finance the business, industry and agriculture of this Great State. They can go where they want, practically do what they want. It would be interesting to know how much they pay in State income taxes, while the Montana banking industry is tied down by antiquated and archaic laws and paying our fair share of taxes to support this Great State, our communities, and our schools. In Scobey, we have a Federal Credit Union and the common bond is to be a resident of Daniels County. In the past year, the Credit Union expanded in to Medicine Lake in Sheridan County, and the common bond is to be a resident of either county. Credit Unions are the fastest growing financial industry in this State and the Nation. They pay no State or Federal income tzx, their overhead is lower than ours, and, as a result, they pay more for deposits and charge less for loans than we do. I'm not afraid of competition, I've been a fighter and a competitor all my life, but I'm getting damn sick and tired of fighting with one hand tied behind my back. Two years ago, the Clarks Fork National Bank of Fromberg was closed and liquidated and the Valley Credit Union in Billings moved in and opened a branch in the old bank building. There was a loss of tax revenue. In the past year, a failing bank in ~~Great~~ COLUMBIA Falls was purchased by an S&L and with the shape the S&L's are in, I wonder how much income tax will be generated to the State of Montana from that institution.

I would venture to say very, very little, if any. I could go on and on detailing what I consider horror stories in our industry, but your time is valuable.

I'm not too proud of my industry. For 20 years we have been washing our dirty linen in these legislative halls, worrying about the Minnesota Twins, while you have many more important things to do.

The banking industry has served Montana well, and it can continue to do so but we must move into the 20th century and get away from the horse and buggy philosophy if we are to survive.

We shouldn't even be here today. This legislation was first approved by secret ballot of the M.B.A. Board of Directors, of which First Bank and Norwest are in the minority, and then by the Bankers by a vote of 97 to 59. That is a bigger majority than either George Bush or Stan Stephens received!

We Montanans are proud people. To my knowledge, we are the only State in the Union that still has a caboose on our trains. That law may be 70 or 80 years old, but we can't help it if the other 49 states are wrong. We are one of 5 states left in the Union which still doesn't have a sales tax, but what the hell, we can't help it if all those other states are out of step -- we're proud people. We are one of two states left in the Union which doesn't have some type of branching or merger in our banking industry. But we're proud people. I'm proud to be a Montanan, but I'm not too proud to be at the bottom of the totem pole in this great nation. We have too much negative thinking in this great State. This is good legislation, and I would recommend a unanimous vote of approval for passage of this bill, so that the banking industry can move forward with the rest of Montana and the nation and find our rightful place in this great nation. We are not the type of people who should be at the bottom.

#8

EXHIBIT 8
DATE 1/18/89
HB 151

TESTIMONY

January 18, 1989

M. M. OLSSON - Vice President, Ronan State Bank

SUBJECT: BANK RESTRUCTURING BILL

My name is Martin Olsson. I am representing the Ronan State Bank, a $50 million bank, established in Ronan in the year 1910. The Ronan State Bank is a closely held bank with no corporate affiliation with a larger multi bank system. We are an independent bank.

We favor the Bank Restructuring Bill because in our view, its major features will benefit banks, bank customers and the State of Montana. The major features I refer to are as follows:

1. branching and facilities provisions
2. merger and consolidation provisions

BRANCHING & FACILITIES
Banks will, through the limited branching and expanded facilities provisions of this bill, be given a new tool to compete with non-bank financial services providers, who continue to erode the commercial banks share of the available financial services market. We view these non-bank financial services providers, including the savings and loan industry, credit unions, insurance brokerage houses and retailers such as Sears, to be the real competitive threat to the banking industry. Each of these have the ability to locate branches and/or facilities anywhere in the State. We cannot conceive of a logical reason why commercial banks should not be afforded the same opportunity to compete. Nor can we conceive of a bank customer who would, for any reason, object to the prospect that he or she might be able to conduct his or her banking business at a more convenient location. In short then, we believe that the branching and facilities provisions of this bill will benefit banking. It will benefit bank customers and yes, more convenience for bank customers and investment in brick and mortar may even be a key to improving Montana's business climate.

MERGER AND CONSOLIDATION
The merger and consolidation provisions of the Bank Restructure Bill, allows any multi bank system in Montana, that so elects, to change their structure. There are over 11 such systems (and more to be developed) in the State that could designate one of their banking units to serve as the "Head Office" and allow the remaining units to serve as branches. For some of these multi bank systems, this will represent an opportunity to improve the cost efficiency of their operation. Cost savings could and most likely would be passed on to the consumer. Merger consolidation

again provides banking an opportunity to compete on a more level playing field with those non-bank competitors mentioned earlier, particularly the credit unions and savings and loan associations that have for years been able to merge and consolidate. The competitive advantages that may exist for some under merger and consolidation will benefit banking, the consumer and Montana.

OPPOSING VIEWS

1. Loans in Small Communities

Some argue that through branching, merger and consolidation that management decisions, particularly loan decisions might not be made by the local banker and or loan committee, who understand well, local economic conditions. These people argue that loan decisions will be made at and by "Head Office" personnel who could care less about the community served by the branch.

At one time, this procedure may have been the rule, however, given the extremely competitive banking environment of today, we believe it to be more and more the exception. We believe that bankers can learn by their mistakes and that the banking industry has come to realize that the local bank, local banker and local loan committee must be responsive to the banking needs of the community they serve.

A well underwritten and well managed loan portfolio, is an essential component in assuring the profitability of a community bank. If local decision making is helpful in achieving this objective, (and we believe it is) then local decision making will be the rule and not the exception.

The legislature of the State of Montana cannot legislate competitive full service banking any more than it can legislate a work ethic. Legislators should and must however, allow banks to compete and the passage of the Bank Restructure Bill is essential, now.

2. State Income Taxes

With the Bank Restructure Bill the 6.75% state corporation income tax on banks would be collected by the state as has been the case for years. Distribution to branching counties of 80% of this tax would be done on the basis of the ratio of deposits in the branch to the total for the corporation.

Some would argue that under consolidation and merger, because of the fact that some systems may choose to file a consolidated tax return, that certian counties may stand to collect less tax revenue.

We don't argue that in any given year this possibility does exist and agree that in the future, as is the case now, some counties will do better than others, relative to the effect of state law relating to corporate income tax on commercial banks.

We would point up the fact that under the current, non branching environment, that between the years 1981 and 1988 (through June), a total of 178 banks lost $97,936,000.00 resulting in an approximate state and local income tax loss in excess of $6,000,000.00. We ask that you examine carefully the facts as presented in "EXHIBIT A" attached. We are confident that having done so, you will come to realize that the tax question raised by some is not the major issue they would have you make it.

We urge you to support the Bank Restructure Bill which will allow commercial banks to remain competitive, recapture lost market share thus improving profitability levels and enabling state income tax receipts from commercial banks to stabilize or improve.

SUMMARY

Recent independent studies have criticized the Montana banking community for resisting change needed to modernize the banking laws in Montana. We feel these criticisms are justified.

Times, technology and competitive factors are requiring rapid changes, the banking industry and Montana banking law must keep pace. Montana is one of the only states in the country which has not modernized its banking laws and we feel that now is the time to do so.

As in years past, the issue of change has become an emotional one once again. A few bankers oppose vigorously this bill as they have opposed any changes for years. We ask that you take the time and make the effort to objectively consider this bill on its merits. The membership of the Montana Bankers Association has done so and a clear majority of 62% have approved the proposal. This fact, in and of itself is a strong, broad based affirmative testimony to the critical need for change.

The Banking Restructure Bill will benefit banks, bank customers and the State of Montana. We strongly encourage your enthusiastic support of this most worthwhile piece of legislation.

EXHIBIT "A"

MONTANA BANKERS ASSOCIATION
BANK RESTRUCTURE ACT - 1990
EFFECTS ON INCOME TAX

1. For 10 years the 11 S&Ls and 35 branches plus 1 bank branch have distributed their state income tax to local government based on a ratio of deposits in the branch to the total for the corporation.

   a. Any banks who merge would be treated the same way as S&Ls and the Norwest Bank in Anaconda and its branch in Butte has been treated for 10 years.

2. Today the amount of income tax paid to every county is based on the profitability of the local bank(s).

   a. Local government has all of their eggs in one basket, relying on the profitability of their local bank(s) rather than a system of banks statewide.
   b. This is like an individual investing all of his life savings in one company rather than a diversified portfolio of stocks and bonds.
   c. Since deregulation of banking in 1980, bank profits (losses) have become volatile and unpredictable.

3. Counties and cities have to refund income taxes received in previous 3 years for losses. Net operating losses can also be carried forward and deducted from future earnings of said bank for 7 years (estimated losses exhibited on back from Sheshunoff x 6-3/4%).

   a. <u>If banks merge, all net operating losses carrying forward are forfeited, thus providing more tax revenue.</u>

4. Since 1980, market share has steadily fallen resulting in less tax revenue for local government (exhibit on back).

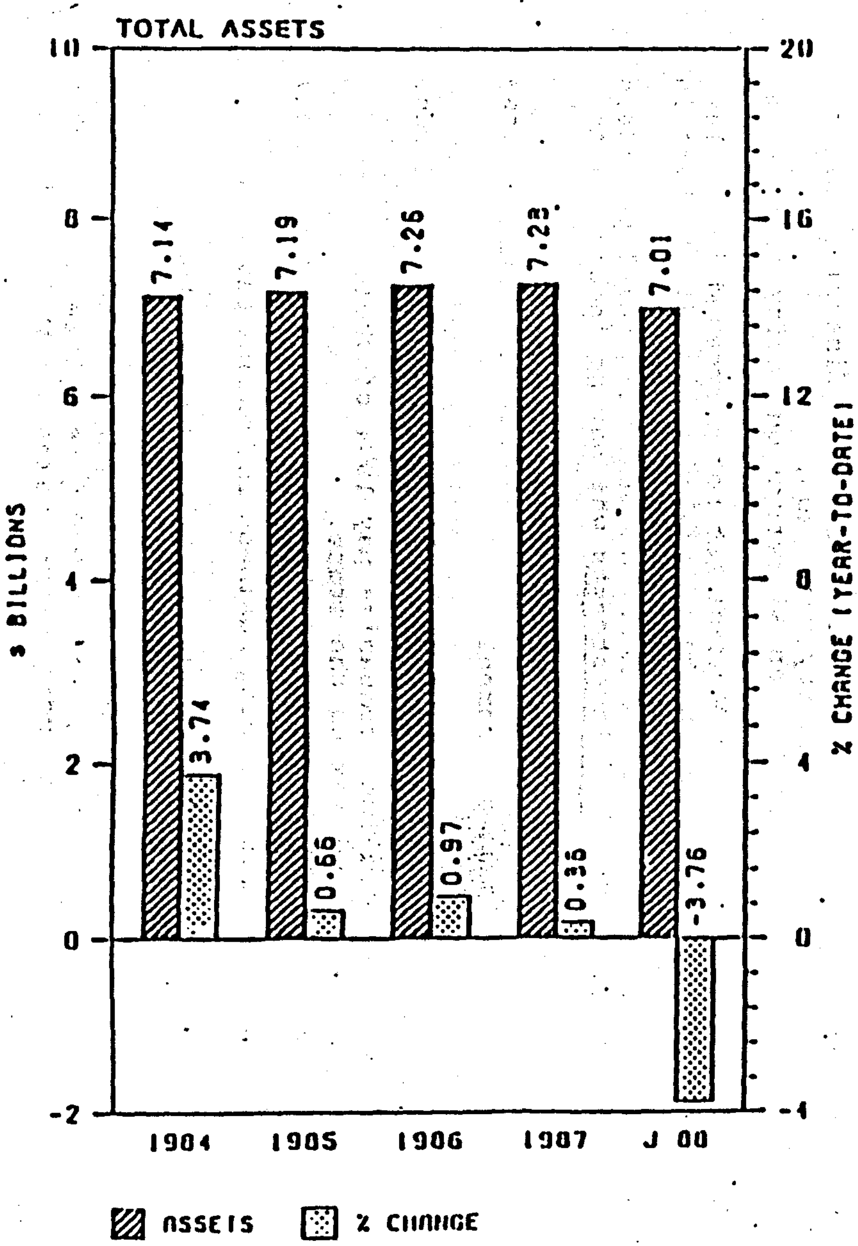
   a. Nationally, banks now have only 29% of the financial assets compared to over half thirty years ago.
   b. Nationally, banks average an 8% return on equity compared to 14% before deregulation.
   c. Total assets of banks in Montana has not increased in the last five years. Credit unions have doubled their market share in Montana the last five years.
   d. Billions of dollars have flowed into other financial providers and the state Board of Investments who pay <u>no</u> income tax to local government.

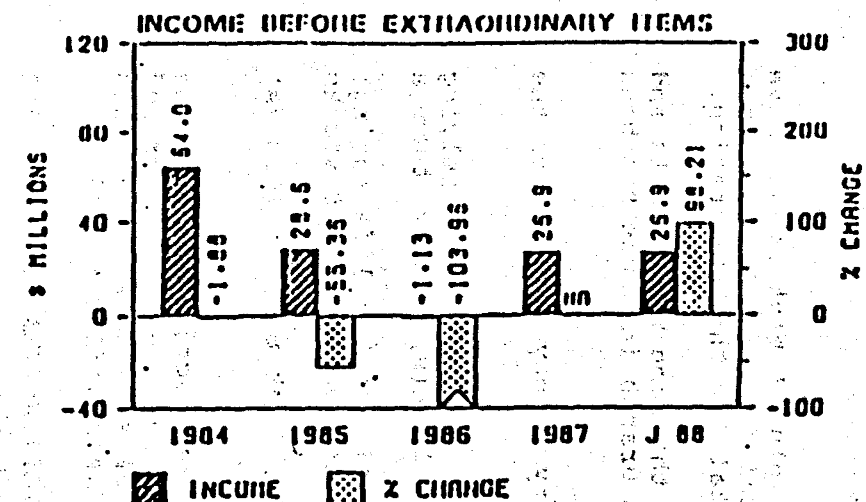
5. Only banks and S&Ls share 80% of the <u>state corporation license (income) tax</u> with local government.

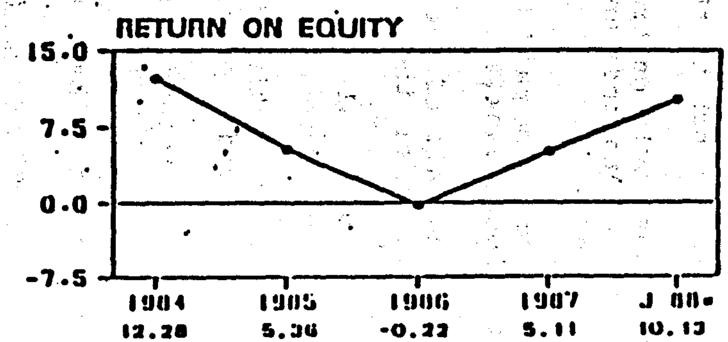
   a. All other competitors e.g. D.A. Davidson, Sears, Merrill Lynch, Edward D. Jones, Dain Bosworth, insurance agents, realtors, retailers and mortgage companies pay 100% of their state corporation income tax to the state.
   b. The 109 credit unions and state Board of Investments do not pay any income tax.
   c. All other corporations doing business in Montana pay 100% state income tax to the state.
   d. This bill does not affect the current tax structure.

SOLUTION: Relax geographical restrictions on banks so as to operate more efficiently and profitably, and thereby recapture lost market share, make more money and pay more income taxes to state and local government.

Montana Banks







Year	# of Banks With Losses	Total Millions $'s lost	Approximate State/Local Income Taxes Refunded/Lost
1981	7	$ 647,000	$ 43,673
1982	5	1,107,000	74,723
1983	9	1,574,000	106,245
1984	19	4,392,000	296,460
1985	33	28,719,000	1,938,533
1986	52	39,018,000	2,633,715
1987	36	20,320,000	1,371,600
1988(June)	17	2,159,000	145,733
8-1/2 years	178	$ 97,936,000	$ 6,464,949

JANUARY 18, 1989 #9

TESTIMONY BY PAUL D. CARUSO, CHAIRMAN OF FIRST SECURITY BANK OF HELENA BEFORE THE BUSINESS AND ECONOMIC DEVELOPMENT COMMITTEE IN OPPOSITION TO HOUSE BILL 151 (BRANCH BANKING AND MERGING)

BRANCH BANKING AND MERGING IN MONTANA IS NOT NECESSARY---NOW OR IN THE FUTURE. MONTANA LEGISLATORS HAVE BEEN CONFRONTED WITH THE BRANCHING AND MERGING QUESTION SINCE 1927, AND HAVE CONTINUED TO MAINTAIN MONTANA AS A UNIT BANKING STATE. CERTAINLY ALL THE VOTES AGAINST BRANCH BANKING THROUGH ALL THE LEGISLATIVE ASSEMBLIES CAN'T BE WRONG.

FIRST: I ASK THE QUESTION.......WHY DO WE NEED TO CHANGE OUR PRESENT BANKING SYSTEM IN MONTANA? CERTAINLY NOT BECAUSE THE INDEPENDENT BANKERS ARE NOT SERVING THEIR COMMUNITIES, THEIR TRADE AREAS, OR THE STATE OF MONTANA AS A WHOLE. THE ONLY REASON FOR THE PROPOSED CHANGE APPEARS TO BE TO CONTROL THE ECONOMY OF MONTANA BY FOREIGN FINANCIAL CORPORATIONS AND HOLDING COMPANIES. A SIMPLE METHOD TO SECURE CONCENTRATION OF:

1. DEVELOPMENT OF MONTANA
2. DEVELOPMENT OF MONTANA BUSINESS
3. DEVELOPMENT OF MONTANA INDUSTRY
4. DEVELOPMENT OF FARMING AND RANCHING

CONCENTRATION OF BANK DEPOSITS WITHIN A STATE IS DIRECTLY RELATED TO THE EXTENT TO WHICH THE STATE PERMITS BRANCH BANKING AND MERGING OF LIABILITIES AND PROFITS AND LOSSES. CONCENTRATION IS GREATEST IN STATES WITH STATEWIDE BRANCHING AND MERGING. IT IS SECOND GREATEST IN STATES THAT PERMIT BRANCHING AND MERGING BUT LIMIT IT TO SOME DEGREE. CONCENTRATION IS LEAST IN STATES THAT SEVERELY RESTRICT BRANCHING AND MERGING OR PROHIBIT IT ALTOGETHER. IN RECENT YEARS, THE NUMBER OF INDEPENDENT BANKS HAS DROPPED SHARPLY IN STATES WHERE BRANCHING AND MERGING IS PERMITTED STATEWIDE OR WITHIN LARGE GEOGRAPHIC AREAS. IN STATES WHERE BRANCHING AND MERGING IS RESTRICTED SEVERELY OR PROHIBITED ENTIRELY, THE NUMBER OF INDEPENDENT BANKS HAS GROWN.

WE IN MONTANA CAN NOT REDESIGN A SYSTEM THAT PROMOTES COMPETITION AND GUARDS AGAINST UNDUE CONCENTRATION. EXPERIENCE HAS SHOWN THAT THE INDEPENDENT BANKING SYSTEM, BUTTRESSED BY THE CORRESPONDENT RELATIONSHIP, IS THE MOST ADVANTAGEOUS TO THE PUBLIC. THE ARGUMENT

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IS SOMETIMES MADE BY EXPANSION-MINDED BANKERS THAT INDEPENDENT BANKING HOBBLES A STATE ECONOMICALLY. THIS CONTENTION IGNORES THE FACT THAT THREE OF THE FASTEST GROWING STATES IN OUR UNION, ALL MATURED UNDER THE UNIT BANKING SYSTEM. BUT THE ARGUMENT THAT MULTI-OFFICE BANKING SPURS A STATE'S ECONOMIC GROWTH ATTRACTS SOME BELIEVERS, NONETHELESS.

IT JUST IS NOT TRUE THAT CHANGING BANKING STRUCTURE LAWS WILL UNLEASH ECONOMIC FORCES SO THAT A LAGGING STATE CAN SOON MAKE SOME "GREAT LEAP FORWARD." BANKS SERVE AS COLLECTORS OF SAVINGS AND ARE INSTRUMENTAL IN THE MONEY-CREATING PROCESS. THEY HELP DECIDE WHO GETS LOANABLE FUNDS, THEREBY HELPING TO CHANNEL GROWTH INTO CERTAIN INDUSTRIES AND LOCALITIES. THEIR PRESENCE ALONE IS NOT ENOUGH TO BOOST GROWTH. IN SHORT, THE KINSHIP OF STRUCTURE AND GROWTH IS TOO WEAK TO SUPPORT CHANGE IN THE BANKING LAW IN THE BELIEF THAT HIGHER LEVELS OF ECONOMIC GROWTH CAN BE REACHED. EXAMINATION OF THE MOST COMMON INDICATORS OF ECONOMIC PERFORMANCE DOES NOT REVEAL ANY SYSTEMATIC OR READILY DISCERNIBLE RELATIONSHIP BETWEEN A STATE'S STYLE OF BANKING STRUCTURE AND IT'S TEMPO OF ECONOMIC GROWTH.

THE QUESTION WE ARE CONFRONTED WITH TODAY IS NOT WITH THE PROPOSED LEGISLATION THAT IS BEFORE OUR COMMITTEE MEETING THIS MORNING. THE MAIN ISSUE OF CONCERN TO ALL OF US SHOULD BE THE PROBLEMS ON A NATIONAL BASIS. THE PROPOSED CHANGES THAT WILL BE TAKING PLACE WITHIN THE STRUCTURE OF THE FINANCIAL SYSTEM IN OUR COUNTRY WILL BE ONE OF THE FIRST ORDERS OF BUSINESS THAT OUR CONGRESS WILL FACE.

PRESIDENT-ELECT BUSH HAS APPOINTED A TASK FORCE FOR RESTRUCTURING OF THE FINANCIAL INDUSTRY, WHICH WILL INCLUDE BANKS, SAVINGS AND LOANS AND CREDIT UNIONS. THE WHOLE REGULATORY SYSTEM IS GOING TO BE SIMPLIFIED AND REGULATED UNDER THE FDIC, FSLIC, FEDERAL RESERVE SYSTEM AND THE COMPTROLLER OF CURRENCY. THE LEGISLATION THAT WILL BE ACTED UPON BY OUR CONGRESS WILL HAVE A PRIORITY OVER ANY TYPE OF LEGISLATION THAT WOULD BE ACTED UPON BY OUR STATE LEGISLATURE. THEREFORE, IT IS THE RECOMMENDATION OF THE MIB, NOT TO ACT UPON ANY TYPE OF NEW MERGING LAWS OR REGULATIONS FOR OUR BANKS DOING BUSINESS IN MONTANA, AT THIS SESSION OF LEGISLATURE. WHAT WE WOULD BE DOING WILL BE MOOT.

TO SUBSTANTIATE THE ABOVE INFORMATION YOU WILL PLEASE FIND ATTACHED TO MY TESTIMONY, DETAIL OF PRESIDENT ELECT BUSH'S REGULATORY REFORM RECOMMENDATIONS.

CHANGING OF OUR BANKING LAWS IS NOT THE METHOD TO BUILD A MAJESTIC MONTANA.

SECOND: YOU CAN BE A PLAYER IF YOU HAVE A SCORE CARD, CORRECT?

LET'S LOOK AT THE SCORE CARD WITH THE PLAYERS.

WHO IS DOING WHAT FOR THE BETTERMENT OF MONTANA IN THE FINANCIAL INDUSTRY AMONG BANKS.................

AS AN EXAMPLE: DURING THE YEAR 1988 THE BANKS IN MONTANA PROCESSED, UNDER THE SBA LOAN GUARANTEE PROGRAM, OVER 30 MILLION TOTAL LOANS, OF THE TOP TEN MOST ACTIVE BANKS PARTICIPATING UNDER THE SBA PROGRAM, EIGHT OF THESE TEN ARE INDEPENDENT BANKS. THE TOP TWO BANKS OUT OF THIS TEN ARE INDEPENDENT BANKS. THE TOP TEN BANKS PROCESSED $20,617,300. IN TOTAL LOANS, OF THIS, $14,916,000. WAS PROCESSED BY INDEPENDENT BANKS. $5,701,100 WAS RPOCESSED BY CORPORATE BANKS. FURTHER, THE TOP TEN PROCESSED 114 TOTAL LOANS, OF THIS 87 WERE BY INDEPENDENT BANKS AND 27 BY CORPORATIONS. THAT IS PART OF THE SCORECARD. IT IS ALSO INTERESTING TO NOTE THAT OF THE TOP TEN BANKS, THE MAJORITY OF THE INDEPENDENT BANKS WERE NOT CONCENTRATED IN THE LARGER CITIES OF MONTANA, BUT GEOGRAPHICALLY LOCATED ACROSS THE STATE. THE CORPORATED BANKS OF THIS GROUP WERE FROM LARGER CITIES.

FURTHER, LET'S TALK ABOUT THE LOANS PROCESSED UNDER THE MONTANA BOARD OF HOUSING PROGRAM. MORTGAGE LOANS PROCESSED BY THE STATE BOARD OF HOUSING TELL THE SAME OR SIMILAR STORY. FROM THIS SCORECARD, IT IS PLAIN TO VERIFY THAT THE INDEPENDENT BANKS WITHIN THE STATE ARE MOST CERTAINLY DOING MORE THAN THEIR FAIR SHARE.

ANOTHER INTERESTING PHILOSOPHY CONCERNING THE MAKE-UP OF THE FIRST BANK SYSTEM AND NORWEST CORPORATION BANKS IN MONTANA. FIRST BANK SYSTEM HAS THIRTEEN BANKS IN MONTANA, ALL NATIONAL BANKS EXCEPT ONE BEING A STATE BANK AND ONE TRUST COMPANY UNDER STATE REGULATION. NORWEST BANKS IN MONTANA ARE ALL UNDER NATIONAL REGULATIONS, CONTAINING EIGHT BANKS. ONE TRUST COMPANY UNDER STATE REGULATION. THE MAJORITY OF INDEPENDENT BANKS IN MONTANA ARE STATE BANKS.

IT APPEARS OUR LARGE OUT-OF-STATE NATIONAL BANKS AND HOLDING COMPANIES WISH TO CONTROL THEIR OWN DESTINY OF DOING BUSINESS IN MONTANA WITH THE LEGISLATION PROPOSED BY MBA.

I HAVE ALSO INCLUDED IN MY TESTIMONY STATISTICAL INFORMATION FOR BANK DATA ON RATIOS OF INSTITUTIONAL COMPARISON IN HELENA FOR YOUR ADDITIONAL INFORMATION AND REVIEW.

MANY OTHER STATISTICS COULD FURTHER DOCUMENT THE POSITION OF INDEPENDENT BANKING IN MONTANA AND OUR ECONOMIC CONTRIBUTION TO BANKING AND SHOW THE WAY BANKING IN THIS COUNTRY COULD BE RACING DOWN THE ROAD TO ULTIMATE CONCENTRATION.

BUT ENOUGH IS ENOUGH. WHAT HAS BEEN PRESENTED ABOVE SHOULD BE SUFFICIENT TO TELL THE STORY. THE FACTS ARE PLAIN. CERTAINLY THE SPEED WITH WHICH THE BANKING AND CREDIT CONTROL STRUCTURE OF OUR COUNTRY IS BEING CENTRALIZED, SHOULD BE A MATTER OF MORE CONCERN. THE SIMPLE QUESTION IS THIS: IS BANKING CONCENTRATION THROUGH BRANCH AND MERGING, OR HOLDING COMPANY SYSTEMS IN THE PUBLIC INTEREST? THE PEOPLE OF COLORADO WERE ASKED THIS QUESTION ON A VOTERS BALLOT FOUR YEARS AGO, AND THEY VOTED NEARLY THREE TO ONE AGAINST BRANCH BANKING.

IN CLOSING, THE ABOVE EXAMPLES SUBSTANTIATE THE STABILITY OF THE INDEPENDENT PLEDGE TO BUILD A MORE MAJESTIC MONTANA, MONTANA CAPITAL FOR MONTANA BUSINESS BY MONTANA LENDERS. THE INDEPENDENT BANKS OF MONTANA CAN NOT VISUALIZE WHY THE LEGISTLATURE OF THE STATE OF MONTANA EVEN FIND WHY IT IS NECESSARY TO CONSIDER HB 151 FOR LEGISLATION FOR THE MBA BILL AND NOT GIVE THE INDEPENDENT BANKS OF OUR STATE THE SAME FORGIVENESS THAT THIS LEGISLATION WOULD DOLE OUT TO THE BIG BANKS AND OUT OF STATE HOLDING COMPANIES. IT COULD PUT THE CHURCH OUT OF BUSINESS!

WE REQUEST YOUR VOTE OF: X"DO NOT PASS"

THANK YOU.

BUSH TASK FORCE RECOMMENDATIONS

REGULATORY REFORM

IBAA Note: The restructuring proposal does not address the thrift industry. When this report was being prepared the thrift lobby was strongly opposed to being included in any restructuring proposal and successfully kept any mention of the thrift industry out of this document.

Overview of Recommendations

The overall objective of the Task Group recommendations is to achieve the best possible balance of three essential goals:

- o safety and soundness,
- o consumer protection, and
- o competition and efficiency.

To help achieve these goals the Task Group proposals seek to strengthen the regulatory system by simplifying it and improving accountability. No agency would be eliminated, but agency responsibilities would be clarified, and the overall process would be streamlined. In some areas particular regulatory functions would be consolidated in a single agency. In others, existing regulatory programs would be modified to reduce unnecessary costs. Major changes in the structure of federal bank regulation would also be implemented to increase efficiency and improve the reliability and flexibility of the system.

Key points of the proposals include:

— The three existing federal bank regulators would be reduced to two by eliminating the FDIC's role in examining, supervising and regulating state non-member banks. A new "Federal Banking Agency" ("FBA") would be created within the Treasury Department, incorporating and upgrading the existing OCC. This agency would regulate all national banks, while the FRB would be responsible for federal regulation of all state-chartered banks.

— The regulation of bank holding companies would be substantially reorganized. At present, the FRB regulates all bank holding companies, even though a different agency usually regulates the subsidiary bank(s) of the holding company. Under the new system in almost all cases the agency that regulates a bank would also supervise its parent holding company. This would make it possible for most banking organizations to have a single federal regulator rather than two.

— The FRB would transfer its authority to establish the permissible activities of bank holding companies to the new FBA, although it would maintain a limited veto right over new

— The FRB would continue to supervise the holding companies of the very largest domestic banks, as well as those with significant international activities and foreign-owned institutions.

— The FDIC would be refocused exclusively on providing deposit insurance and administering the deposit insurance system. All its current responsibilities for environmental, consumer, antitrust and other laws not directly related to the solvency of insured banks would be transferred to other agencies, as would its responsibilities for routine examination, supervision and regulation of state non-member banks. At the same time, the FDIC would assume new authority to review issuance of insurance to all institutions, as well as to examine all troubled institutions and sample non-troubled firms in conjunction with the primary supervisor. The FDIC would also have new authority to take enforcement action against violations of federal law concerning unsafe banking practices in any bank examined by it where the primary regulator failed to take such action upon prior request of the FDIC.

-- A new program would transfer current federal supervision of many state-chartered banks and S&Ls (and their holding companies) to the better state regulatory agencies, creating new incentives for states to assume a stronger role in supervision.

— The special regulatory system for thrifts would be maintained, but eligibility would be based on whether an institution is actually competing as a thrift, rather than on its type of charter.

-- The FDIC and FSLIC would be required to establish common minimum capital requirements and accounting standards for insurance purposes.

— Antitrust and securities matters would each be handled by a single agency rather than five different agencies at present.

-- Some specific regulatory provisions would be simplified to eliminate unnecessary burden. These include existing legislative provisions that encourage wasteful litigation, as well as outdated application requirements in various areas that result in substantial unnecessary paperwork.

Needless to say, the proposals of the Task Group would not guarantee either good management by financial firms, or consistent and effective leadership of the financial regulatory agencies. However, these proposals would strengthen our ability to maintain a safe and sound financial system. At the same time they would also begin to reduce many of the unnecessary costs and burdens of the current system. As a comprehensive package the proposals would represent the most significant overhaul of our federal regulatory aparatus since the 1930s. Their adoption would produce substantial and lasting benefits for both our financial markets and the American public.

CAPITAL RATIOS:

	SEPTEMBER 1988	SEPTEMBER 1985
FIRST SECURITY HELENA	8.21	9.00
NORWEST HELENA	5.18	6.64
FIRST BANK HELENA	5.82	5.67
BANK OF MONTANA HELENA	9.81	11.63

LOAN TO DEPOSIT RATIOS:

FIRST SECURITY HELENA	71.68	71.90
NORWEST HELENA	39.03	67.91
FIRST BANK HELENA	36.95	51.39
BANK OF MONTANA	46.48	72.50

DEPOSITS:

FIRST SECURITY HELENA	25,134	22,490
NORWEST HELENA	94,994	100,164
FIRST BANK HELENA	115,013	107,084
BANK OF MONTANA HELENA	15,761	13,027

NOTE: THE FIRST BANK OF HELENA NUMBERS FOR SEPTEMBER 1988 ARE JUNE 30, 1988 NUMBERS. FIRST BANK DID NOT PUBLISH CALL REPORTS IN MONTANA IN SEPTEMBER, ALL FIRST SYSTEM BANK WERE PUBLISHED IN MINNESOTA, I THINK.

CAPITAL, IF CONSOLIDATION OCCURS THE MINNESOTA BANKS MAY BE ABLE TO OPERATE ON EVEN SMALL CAPITAL RATIOS. I KNOW THIS DISCREPANCY IS MAINLY DUE TO THE REGULATORS EACH OF US IS UNDER, HOWEVER IT COULD CAUSE THE PLAYING FIELD TO BE DISTORTED FURTHER.

LOAN TO DEPOSIT RATIOS, THERE IS A STRONG INDICATION THE MINNESOTA BANKS ARE LESS WILLING TO DO BUSINESS WITHIN THE STATE AND I FEEL THAT CONSOLIDATION WOULD DO NOTHING TO REVERSE THIS TREND. POINT OF INTEREST THE FIRST SECURITY BANK OF HELENA HAS A BETTER PAST-DUE PERCENTAGE AND LESS CLASSIFICATIONS CURRENTLY THEN IT HAD IN 1985. BETTER MANAGEMENT, I DON'T THINK SO, THERE ARE GOOD LOANS TO BE MADE IN THIS ECONOMIC ENVIRONMENT.

DEPOSITS, WHERE DID THE DEPOSITS MOVE TO? WHERE WILL THE DEPOSITS MOVE TO?

TAXES, IF DEPOSITS, PROFITS, AND LOANS ARE MOVED AROUND WITHIN THE HOLDING COMPANY STRUCTURE, ARE THE INDEPENDENT BANKS GOING TO PAY THE ENTIRE TAX BILL FOR ALL MONTANA BANKS. WE CERTAINLY WILL NOT HAVE THIS PROBLEM OVERLOOKED BY THE LEGISLATURE.

Paul D. Caruso, Jr.
President
First Security Bank of Helena

Just in case you missed it...

Branch Bullying: Big Texas Banks Drain Deposits From Small-Town Units, Cutting Off Locals' Credit

By Leonard M. Apcar
And Buck Brown
Staff Reporters of The Wall Street Journal

LUFKIN, Texas—When the big Dallas and Houston banks moved into Lufkin in the 1970s, they promised to transform this dusty sawmill town into an East Texas money center.

Suddenly, multimillion-dollar credit lines were available to local companies. Sophisticated trust services were dangled before rich lumber and oil families. Dollars flowed from automated teller machines. Drive-up banks engulfed two square blocks.

With little Lufkin finally enjoying the benefits of big-city banking, people celebrated. The grand opening of one bank's four-story building was something: hot-air balloons, prizes and an appearance by gold-medal gymnast Mary Lou Retton.

Promised Prosperity Lost

But today, the "new age" promised by the arrival in Lufkin of Dallas-based First RepublicBank Corp. and Houston-based First City Bancorp. of Texas has sunk into a dark age.

Some Lufkin banks—and hundreds of little ones like them that were absorbed by big Texas banking chains in recent years—now are caught in a mess not of their own making. As loan losses at money-center banks in Dallas and Houston mount, banks all across the state are under strict orders to shovel hard-earned dollars to their sickly, cash-starved holding companies. So the banks are systematically cutting local borrowers' loans and credit lines.

The upshot: Deposits generated in places such as Lufkin are being used to refinance shaky real-estate and energy loans in Dallas and Houston. And with the little banks left with little money to lend, local businesses are being squeezed—some right out of business. The big banks "are just choking the entire state," says F. Hagen McMahon Jr., executive director of the Independent Bankers Association of Texas.

What annoys everyone in Lufkin from a local Chamber of Commerce to the Baptist minister is that the little town had nothing to do with the energy and real-estate lending debacle in Houston and Dallas but is paying the price for it.

Shifting Funds

As recently as 1985, nearly 66% of the deposits at the little banks now owned by First RepublicBank were recycled back to the small towns as loans. Today, that total has shrunk to 41%, and $1 billion once in borrowers' hands has vanished. And more than half the funds that its local banks invest in loans and securities have gone to Dallas, up from only 14% five years ago.

The never-ending crisis in Texas banking is panicking investors, who have lost millions of dollars. It's rattling the nation's capital, where administration officials fear that federal bailouts of Texas banks and thrift institutions, a third of which are insolvent, could increase the national budget deficit by more than $10 billion.

But numbers of that magnitude mean little to the people in Lufkin (population 32,000) and similar Texas towns. What troubles them is that a Lufkin merchant who had banked without difficulty for 22 years now can't get a $12,000 loan to repair the leaky roof of his store. Or that a local physician is being ordered to repay a $10,000 note for no apparent reason. Or that one of their good friends is going out of business because the big-city bankers arbitrarily cut him off.

"Probably everybody that's in business in Lufkin has had their business whittled down or their borrowing power cut," says an auto dealer, whose own credit line was slashed 20%.

Already-Ailing Economies

Lufkin's economy, like that of many towns big and small in the Southwest, had already been hit hard by the depression in the energy industry. Business and personal bankruptcies in East Texas have soared twentyfold since 1986. Thousands of mill workers, carpenters and oil-field roughnecks have lost their jobs. And now, as businessmen in Lufkin and other little towns turn to First RepublicBank and First City, the money-center banks that once promised them all the financial support they would ever need, they're getting little help.

In Lufkin, chicken farmers Edgar and Gilbert Burton recently filed personal bankruptcy petitions because their bankers refused to carry them until egg sales pick up in the fall. In nearby Henderson, Roger Ellis wakes up in the middle of the night because his Dallas-owned bank, which once promised him an endless supply of credit, is demanding that he pay off his construction company's note even though he has never missed a payment. And in Temple, hundreds of miles west of here, a roofing company was ordered by its Dallas-controlled bank to either pony up a $100,000 deposit or risk [illegible] a $200,000 credit line.

"The banks have [illegible] a little bit rough and a little bit [illegible] says James A. Jones, whose Piney [illegible] Tractor & Implements Inc. in Lu[illegible] lost sales because the banks refus[illegible] finance some of his customers.

First RepublicBank, [illegible] federal bailout is pending, and First [illegible] whose federally aided $1.5 billion [illegible] was completed last month, [illegible] acknowledge that they are relying [illegible] on their small-town banks for fun[illegible] they insist they're still lending mone[illegible] the big cities and small towns. The [illegible] they say, is a lack of profitable [illegible] anywhere in the state, an[illegible] are trying to limit risk.

In any event, a mixt[illegible] anger, frustration and fee[illegible] lingers over Lufkin an[illegible]er li[illegible]ing towns nearby. That contrasts [illegible] with the spirit of optimism in s[illegible] places a few years ago. Surrounded [illegible] abandoned paper mills and shut-in oil [illegible] these people had turned to the big-city [illegible] for help. Their own little banks [illegible] pressed for funds to expand, an[illegible] "friendly bankers" down at First [illegible] Bank and First City were offerin[illegible] helpful.

"The banks promise[illegible]," says Roger Mercer, a Nissa[illegible] here.

And for a time they [illegible] opening a spigot of easy credit t[illegible] a building boomlet and change[illegible] face of these backwoods towns. Apa[illegible] complexes, motels and a country [illegible] sprouted around Lufkin. There [illegible] talk of turning the area into a [illegible] mecca using Lake Sam Rayburn, [illegible] largest man-made lake, as a [illegible].

Alas, the "boys up i[illegible] tower," as locals now deris[illegible] call them, changed their tune. "T[illegible] virtually everything out of the c[illegible] of the local banks," Mr. Mercer [illegible] The arm-around-the-shoulders fri[illegible] that once greeted custom[illegible] ha[illegible] way to straight-arming [illegible] appe[illegible]wers. Locals are whispering ab[illegible] list" of customers that First Re[illegible] Lufkin is pressing for repaym[illegible]

Tractor Dealer's Trouble

First RepublicBank Lufkin recently summoned a Lufkin tractor dealer to the bank, where stone-faced accountants unfurled spread sheets showing the mortality rate of firms in his industry. It didn't matter that his loans were current. His company had lost money for two years running, and the odds were stacked against him. Bankers whom the businessman had never seen before said they would have to cut his credit line to $50,000 from $1 million. He was stunned: Without the big credit line, he couldn't finance his inventory, and sales would shrivel.

The tractor dealer eventually found financing at a small, locally owned bank and a large, out-of-town credit company. But he's still fuming. "The dang thing that hacks me off is that all of a sudden I was a statistic and not an individual," he says.

Roger Ellis fears that soon he will become a statistic. For months, the 45-year-old construction contractor has been conducting a self-styled liquidation because First RepublicBank Henderson refused to refinance a $250,000 loan. Mr. Ellis recently sold an excavator, two bulldozers and several trucks to cut his debt to $130,000. But he had to lay off 20 of his 25 workers, and one supplier is suing him for unpaid bills. Meanwhile, he is again digging trenches with his backhoe during the day and going sleepless many nights worrying about his debts. "I feel like I've had all the wind knocked out of me," Mr. Ellis says. "I've been whipped down."

Local bankers acknowledge that corporate officials at First RepublicBank in Dallas have ordered all outlying banks to cut some commercial and real-estate lending. "The pressure is there to identify the problems," says H.J. "Jay" Shands III, the bank's 33-year-old chief executive whose family ran the Lufkin bank before First RepublicBank bought it. And he concedes that the bank's new owners, hard-pressed for deposits (federal regulators are pumping between $2.5 million and $3.5 million into the chain's banks each week), are enforcing credit policy rigidly.

"Our policy book was just as thick before the bank was sold," says Mr. Shands, pointing to a three-ring blue binder. "The only difference was we never read it."

Edgar and Gilbert Burton wish they never had. The two Lufkin chicken farmers filed their bankruptcy petitions last month after First RepublicBank Lufkin refused to lend them the $500,000 they needed to feed their 750,000 chickens and meet other obligations. The brothers already owed the bank $2.5 million, and local officials told them that another loan would exceed the Lufkin bank's legal limit. They were told to plead their case with corporate officials at First RepublicBank Dallas, whose now-defunct agricultural-loan division had once lent the funds to purchase a second chicken ranch and just about anything else they wanted.

But their pleas fell on deaf ears. First RepublicBank Dallas "was broker than I was," Edgar Burton says. "If I had any money, they would have wanted to borrow it."

Whole Town Upset

The hard line taken by "the boys up in the glass tower" is riling the whole town. In the midst of a meeting, a Lufkin attorney suing First City gets a call from a stunned physician who says one of the banks just ordered him to repay a $10,000 note. The lawyer fuels the flames. "These damn people in Houston and Dallas sure are fangling things up, aren't they?" he says.

Charles S. McIlveene, the pastor of Lufkin's First Baptist Church, says donations had dropped so much that he held off filling two staff openings. Concerned about the church's ability to pay for a $3.5 million expansion, the church opted for a three-year note on the project rather than a shorter term.

The credit squeeze is also creating emotional strain. The manager of Lufkin's Waldenbooks says that the store frequently runs out of "Overcoming Depression" and that tapes on how to deal with stress are a hot item. Local psychotherapists say cases of stress and family tension are soaring. Edgar Burton concedes that at first he was deeply depressed watching the family's business collapse after 33 years. "I've done my crying," he says.

Mr. Shands, the banker, is acutely aware of the pain his bank's credit squeeze is creating in Lufkin. "It hasn't been pleasant," he says. "I wish I'd been a schoolteacher."

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MOST JOBS CREATED IN MONTANA IN THE LAST DECADE WERE RELATED TO THE EXPANSION OF SMALL BUSINESSES AND ENTREPRENEURIAL ENDEAVORS. THE OUTLOOK INTO THE NEXT CENTURY INDICATES THAT THAT IS WHERE MONTANA'S FUTURE GROWTH WILL COME. STATISTICS SHOW THAT IN 1980 SMALL BANKS UNDER 100 MILLION IN DEPOSITS MADE 88% OF ALL SMALL BUSINESS LOANS. THESE SMALL BANKS HELD ONLY 23.3% OF THE NATION'S BANKING ASSETS. MEDIUM-SIZED BANKS (100 MILLION TO 1 BILLION) MADE 10.4% SMALL BUSINESS LOANS, WHILE HOLDING 23.9% OF THE NATION'S BANKING ASSETS. THE LARGEST BANKS, REPRESENTING 52.8% OF THE NATION'S BANKING ASSETS, ONLY MADE 1.3% OF SMALL BUSINESS LOANS. DOES THIS MAKE YOU THINK WE SHOULD CONCENTRATE MORE AND MORE OF BANK ASSETS IN FEWER, LARGER BANKS?

IN COLORADO THE FIRST BANK SYSTEM WANTS STATEWIDE BRANCHING IN ORDER TO ELIMINATE PERSONNEL AND OVERHEAD OF THE 19 COLORADO BANKS IT JUST ACQUIRED FROM CENTRAL BANCORP. FBS IS MOVING DATA PROCESSING OPERATIONS TO MINNEAPOLIS TO SAVE AN ADDITIONAL 3 MILLION ANNUALLY.

DO YOU THINK THE SAME THING WON'T HAPPEN IN MONTANA? IT HAS ALREADY BEGUN.

DO YOU THINK SHIPPING MONTANA JOBS GENERATED BY MONTANA CAPITAL IS IN THE BEST INTEREST OF THE STATE, OR YOUR CONSTITUENTS?

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IN ARIZONA THREE BANKS CONTROL 85% OF THAT STATE'S BANKING ASSETS. IF THIS WERE TO HAPPEN IN MONTANA UNDER THE NEW LEGISLATION PROPOSED BY MBA, 3 BOARD OF DIRECTORS WOULD MAKE 85% OF THE LOAN DECISIONS AFFECTING MONTANA BORROWERS.

DO YOU REALLY THINK THAT WOULD BE IN THE BEST INTEREST OF YOUR CONSTITUENTS WHO BORROW MONEY AND INVEST THAT MONEY IN ORDER TO CREATE MONTANA JOBS?

QUESTION FOR ANYONE FROM FIRST BANKS - OR FOR CADBY IF NO ONE FROM FIRST TESTIFIES:

A LAWSUIT HAS BEEN FILED SEEKING DAMAGES FOR SHAREHOLDERS FOR A "RECKLESS" GAMBLE ON U.S. TREASURY SECURITIES THAT WILL COST FIRST BANK SYSTEM, INC., ABOUT $500 MILLION THIS YEAR.

THE COMPLAINT ACCUSES THE MINNEAPOLIS BANK HOLDING COMPANY OF ENGAGING IN "RECKLESS HIGH-RISK SPECULATIONS ON INTEREST RATES."

"VIRTUALLY NO OTHER BANKING INSTITUTION ENGAGED IN THIS HIGHLY SPECULATIVE ACTIVITY TO THE EXTENT THAT DEFENDANTS DID," SAYS THE COMPLAINT. "BY PURCHASING LONG-TERM BONDS WITH SHORT-TERM MONEY, DEFENDANTS WERE IN EFFECT GAMBLING WITH FBS' ASSETS AND EARNINGS, RECKLESSLY SUBJECTING FBS TO BOTH SUBSTANTIAL ASSET AND CAPITAL IMPAIRMENT."

WHAT SHARE OF THIS LOSS WILL MONTANA FIRST BANKS ABSORB? WHAT SHARE OF THIS LOSS WILL YOUR COUNTY OR CITY ABSORB AS A LOSS IN TAX REVENUE?

WILL FIRST BANK SYSTEM HAVE TO CALL IN LOANS TO COVER THEIR LOSSES LIKE THE BIG TEXAS BANKS DID?

MBA SENT YOU INFORMATION REGARDING THEIR BILL CALLED THE "FIVE POINT RESTRUCTURE BILL." ONE OF THE FIVE POINTS THEY STRESS ASKS THE QUESTION:

WILL DEPOSITS STAY WITHIN THE COMMUNITY?

THEIR ANSWERS:

1. INVESTMENT DECISION POLICIES STAY THE SAME.
2. ALL BANKS INVEST YOUR DEPOSITS IN A VARIED PORTFOLIO OF SECURITIES AND LOANS LIKE ANY OTHER BUSINESS OR INDIVIDUAL.
3. LOANS DEPEND ON DEMAND, YIELD AND RISK ARE PREFERRED INVESTMENTS.

DO THEIR ANSWERS REALLY SATISFY THE QUESTION OR DO THEY JUST SEEM TO DANCE AROUND THE QUESTION?

PERHAPS THE ANSWER LIES IN AN ARTICLE BY PAUL J. HOLLEY, A BUSINESS JOURNALIST, WHOSE ARTICLE APPEARED IN THE NOVEMBER 13 ISSUE OF THE BILLINGS GAZETTE. MR. HOLLEY SAYS, "OH YES, SOME ARGUE THAT THE DREADED "MINNESOTA TWINS" - FIRST BANK SYSTEM AND NORWEST CORP. - WILL USE LIBERALIZED STATE BANKING LAWS TO SUCK MONEY OUT OF COMMUNITIES AND WHISK IT (GASP!) OUT OF STATE.

WELL, I'M HERE TO TELL YOU THAT IT'S ALREADY HAPPENED AND WILL CONTINUE TO HAPPEN. THE TWINS ARE JUST TWO OF THE MANY PLAYERS INVOLVED.

AS ECONOMISTS WILL TELL YOU: CAPITAL FLOWS WHERE IT'S NEEDED."

IF YOU THINK CAPITAL IS NEEDED IN MONTANA, DO YOU THINK HB 151 IS IN THE BEST INTEREST OF YOUR CONSTITUENTS?

MINNESOTA-OWNED BANKS LIKE TO BOAST THAT THEIR MONTANA AFFILIATES HAVE A HIGHER LOANS-TO-DEPOSIT RATIO THAN OTHER BANKS. THE LATEST FIGURES RELEASED BY SHESHONOFF INDICATE OTHERWISE. NATIONALLY, BANKS HAVE APPROXIMATELY 70% OF THEIR ASSETS LOANED OUT, WHILE IN MONTANA FIRST BANK HAS ONLY 48.8% OF THEIR ASSETS LOANED OUT. IF FIRST BANKS LOANED OUT AT THE NATIONAL AVERAGE, AN ADDITIONAL $297,000,915 WOULD BE AVAILABLE IN MONTANA.

ALSO BASED ON AN ESTIMATE BY A FEDERAL RESERVE SYSTEM ECONOMIST, HOME TOWN BANKS HAVE THE LARGEST PERCENTAGE OF THEIR ASSETS IN LOANS IN THEIR COMMUNITIES (57%) WHILE REGIONAL AND NATIONAL MONEY CENTERS HAVE ONLY 29% OF THEIR ASSETS LOANED LOCALLY.

DO YOU REALLY THINK THAT CREATION OF LARGER AND LARGER BANK SYSTEMS WILL CREATE MORE LOANS OF MONTANANS' OR MINNESOTANS'?

IS THIS BILL A METHOD OF REDUCING TAX LIABILITY FOR THE LARGE BANKING SYSTEM?

IS THIS BILL THE FIRST STEP IN MAKING A MORE ATTRACTIVE PACKAGE FOR LARGE OUT-OF-STATE BANK HOLDING COMPANIES TO SELL THEIR HOLDINGS TO LARGE INTERSTATE BANKS OR MULTI-NATIONAL BANKS? IS PERMITTING INTERSTATE BANKING THE NEXT LEGISLATION FOR 1991?

IF THIS BILL PASSES, LOCAL CONTROL BY LOCAL BOARDS OF DIRECTORS WILL BE LOST. DO YOU THING MONTANA DEPOSITS WOULD BE LOANED AND INVESTED IN MONTANA OR WOULD THEY MORE LIKELY BE DISTRIBUTED IN MINNESOTA?

WILL MERGER AND CONSOLIDATION CAUSE A LOSS OF MONTANA JOBS TO OUT-OF-STATE BANKING CENTERS - WILL OUR DEPOSITS, AND PROFITS MADE BY THEIR INVESTMENT, PROVIDE JOBS HERE OR IN MINNESOTA?

TO ANYONE FROM FIRST OR NORWEST (ANYWHERE OTHER THAN BILLINGS): HOW MANY JOBS HAVE YOU TAKEN OUT OF THE (HELENA/ KALISPELL/ MISSOULA ECONOMY WITH YOUR CONSOLIDATION OVER THE LAST 3 OR 4 YEARS?

IS THE REAL PURPOSE OF THIS LEGISLATION TO MAKE LOANS EASIER FOR FARMERS AND SMALL BUSINESSMEN OR IS IT TO INCREASE THE LEGAL LENDING LIMIT TO A SINGLE BORROWER? TO GO ONE STEP FURTHER WITH THE QUESTION, HOW WOULD A SMALL BUSINESSMAN FARE THEN, IF A LARGE CORPORATE CUSTOMER OF A MERGED BANK WERE TO ASK FOR AN INCREASE IN THEIR BORROWING LIMIT?

IS HB 51 GOING TO BENEFIT MONTANANS OR IS IT INTENDED TO BENEFIT PROFITS FOR THE MINNESOTA BANK HOLDING COMPANIES?

\# 12

HB 151 AND COUNTY REVENUE

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Bank Of Montana 1987

County	Under Existing Law	Under HB 151	County Revenue (+ -)
Cascade	$43,000.00	$24,000.00	-$19,000.00 -45%
Missoula	$10,000.00	$13,000.00	+$ 2,000.00 +25%
Hill	$58,000.00	$37,000.00	-$21,000.00 -37%

Total State Tax Before Hb 151, (All Banks) $202,000 After HB 151/ $152,000

Montana Bancsystems 1987

Missoula	$81,000.00	$24,000.00	-$57,000.00 -70%
Silver Bow	$59,000.00	$20,000.00	-$30,000.00 -65%
Carbon	$ 8,000.00	$11,000.00	+$ 3,000.00 +38%

Total State Tax Before HB 151, (All Banks) $159,000 *After HB 151/ $0

Norwest 1987

Cascade	$113,000.00	$21,000.00	-$92,000.00 -82%
Deer Lodge	$ 68,000.00	$19,000.00	-$49,000.00 -71%
Yellowstone	$ 72,000.00	$30,000.00	-$42,000.00 -58%

Total State Tax Before HB 151, (All Banks) $348,000 After HB 151/ $279,000

First Bank Systems 1987

Cascade	$300,000.00	$184,000.00	-$123,000.00 -41%
Missoula	$240,000.00	$140,000.00	-$100,000.00 -42%
Silver Bow	$120,000.00	$ 86,000.00	-$34,000.00 -29%

Total State Tax Before HB 151, (All Banks) $1,000,000 *After HB 151/ $1,000,000

The Big Losers: Cascade, $243,000.00
Missoula, $155,000.00
Silver Bow, $64,000.00

All figures are estimated from reports of net income. The only way to represent these figures accurately is to have the Dept.Of Revenue compile projection from confidential tax records.

*Bancsystems recorded a number of negative earning banks.
*First Banks recorded no loses.

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K. Colbo

January 18, 1989
HOUSE BUSINESS & ECONOMIC DEVELOPMENT COMMITTEE
Room 312-3, 8:00 a.m., Chairman Pavlovich

I. Introduction - Montana Independent Bankers

II. Opposition to H.B. 151 - The Branching Bill

III. Testimony to focus on two areas drawn from experience as Director of the Department of Commerce and as Chairman of Montana State Banking Board

- A) While at Commerce, I was able to stay detached from this issue
- B) Montana bank structure performance
- C) Economic development in Montana

IV. Montana Bank Structure

- A) The Montana bank structure has evolved to meet the particular needs of our state's economy
- B) It is a competitive playing field, not a tilted field as some would represent
- C) The Montana banking industry has been going through some very difficult times
  1. Bank closures
  2. Bank sales - banks do sell
  3. Banks in trouble
  4. We are not out-of-the-woods yet
- D) We have survived intact with our bank structure suited to Montana. New bank applications

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V. Economic Development in Montana

A) The evolving Montana economy

H.B. 151

B) I-95, Montana Coal Tax Loan Program

C) April 30, 1982, Robert L. Reiquam; President, Montana Bankers Association

Initiative 95, which would place one-fourth "of all future deposits to the permanent coal tax trust and invest it in Montana's economy" -- the state would make no direct loans, but would emphasize investments in new or expanding enterprises" is not a sound proposal. Montana bankers would like to see additional dollars from the coal tax trust fund deposited on interest in Montana banks. These funds could earn a good rate of interest in these banks, but Montana bankers are very concerned about the balance of this initiative, which would create an economic development fund and would emphasize investments in new or expanding enterprises. This, then begins to smack of credit allocation.

D. Program Status

1. Since inception there have been $68M in loan applications
2. $32M invested in 202 loans
3. 125 current loans outstanding, 5 delinquent all guaranteed by a federal program. Not a bad performance by any standard

4. Of the 200 loans a full 160 or 80% have been initiated by one group of bankers (guess) and 40 or 20% by holding company banks

5. Availability of quality loans

6. Attitude of lendors and lending policies

H.B. 151

7. Report - Commercial Bank Lending Patterns and Economic Development in West Virginia

   a) Bank structure plays a role

   b) Attitude is determinate

8. Could site examples of the problems faced by professional finance packagers

9. H.B. 151 is <u>not</u> the solution to loan ratios or attitudes

VI. Close - Quote from President of First Bank Systems, DeWalt Ankeny from Commercial West Magazine in August, 1985. "We believe many small towns today can be more efficiently served by a local community bank that does not have the substantial overhead of a multistate banking system."

For Committee Secretary #14
House Business.

Mr. Chairman & Members of the Committee

Gary B. Carlson, CPA
Shareholder
Anderson ZurMuehlen & Co., P.C.

Testimony - HB-151

Our Firm's income tax practice includes financial institutions - both banks and savings and loans and the related preparation of Corporation License Tax returns.

SAME TAX STRUCTURE AS SAVINGS & LOANS

Should a group of two or more banks choose to merge under the proposed bill, the resulting tax entity would be the same tax structure as savings and loans with branches have been reporting under for the past ten years. This presently includes 11 savings and loans, 35 branches, and one bank with a branch.

IMPACT ON NET OPERATING LOSSES

If two or more banks merge, following the passage of the proposed legislation, all existing net operating losses, carrying forward of any of the separately merged banks, are immediately forfeited. Therefore, future state and county tax revenue would not be offset by existing carryforward losses upon merger - thus increasing tax revenue.

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PROFITABILITY

The revenue from corporation license tax collections is dependent on the Montana economy and corporate profitability since it is measured by income for ALL Montana Corporate tax paying entities.

A healthy Montana economy, more than likely, will result in increasing bank operating profits and, thereby, increasing Corporation License Tax revenues. The tax impacts are dependent on the economy, more than on merger. Merger, if implemented by banks, may help stabilize bank tax revenues.

NOT A TAX BILL

It is important to note, the bank restructure bill (House Bill 151) does not change any existing tax law or add any new tax provisions.

I am handing out separate analyses related to tax impacts, for your review.

I am available to answer your questions regarding the tax impacts of bank merger.

Thank you.

To be filled out by a person testifying or a person who would not like to stand up and speak but wants their testimony entered into the record.

WITNESS STATEMENT

NAME Bruce MacKenzie BUDGET

ADDRESS 8 Third Street North

WHOM DO YOU REPRESENT? DADCO Incorporated (Trust Corporation of Montana

SUPPORT ______ OPPOSE ______ AMEND X

COMMENTS: HB 151 would permit continued branching of Trust Offices by major Banks, but in effect ~~provisions~~ does nothing to permit similar branching by independent state chartered Trust Companies such as Trust Corporation of Montana.

By amending Section 4 of the bill by deleting any reference to "trust company" in Section 32-1-371(1), trust businesses would be free from the prohibitions on branch offices which apply to commercial banks.

Trust Companies fulfill an entirely separate fiduciary service to clients that should not be subjected to the same restrictions imposed on commercial banks. The service is highly personal and requires significant personal contact with clients available ~~best~~ through a branch office.

Bruce A MacKenzie
(727-4200)

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Form CS-34A
Rev. 1985

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HB 131

like to stand up and speak but wants their testimony entered into the record.

WITNESS STATEMENT

NAME Gary Carlson BUDGET

ADDRESS P.O Box 1147 Helena

WHOM DO YOU REPRESENT? MBA .

SUPPORT XXX OPPOSE AMEND

COMMENTS:

Testimony was submitted seperately.

- Argument at point in time related to profitibility is the major question

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

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Rev. 1985

Bob Bushnell HURI	(HURI) Mt Snowmobile Assn		offer
			X
Steve Slagle	MT 4X4 Assn		X
BRUCE VINCENT	LIBBY, MT.		X

WITNESS STATEMENT

NAME Keith L. Colbo BUDGET

ADDRESS 1037 Cedarwood, Helena, MT

WHOM DO YOU REPRESENT? MT Independent Bankers

SUPPORT OPPOSE H.B. 151 AMEND

COMMENTS:

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

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Rev. 1985

VISITORS' REGISTER

Business & Economic Devp. COMMITTEE

BILL NO. HB151 DATE 1/18/89

SPONSOR Rep Swift

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
LYNN GROBEL	GLASGOW, MT	X	
MARK SAFTY	BILLINGS, MT.	X	
[illegible] FRANKLIN	SIDNEY MT.	X	
Larry Moore	Cascade MT	X	
Jim Bennett	Billings, MT	X	
EARL D. LOVICK	Libby, MT.	X	
SAM DASIOS	TROY MT	X	
MARTIN M. OLSSON	RONAN, MT	X	
Robert Henry	Missoula MT	X	
John Witte	Scobey, MT	X	
Verna Thelck	Missoula, MT	X	
Rep Manuel	Helena	X	
Rodney L Smith	Red Lodge	X	
Judy Smith	Red Lodge	X	
Bob [illegible]	Chinook	X	
Neysha Humphreys	Helena	X	
Fred Garicpy	St. Ignatius		X
John Cadby	Helena	X	
Ken Hendley	Twin Bridges, mt.	X	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

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VISITORS' REGISTER

______________________ COMMITTEE

BILL NO. HB 151 DATE 1-18-89

SPONSOR Swift

NAME (please print)	REPRESENTING	SUPPORT	OPPOSE
Samuel R. Noel	Citizens State Bank	✓	
[illegible]	1st Security Bank	✓	
[illegible]	MIBA		✓
Wayne Gibson	First Security Bank - Bozeman		✓
Bustee Scheiber	Mountain Bank - Whitefish		✓
Richard A Maurer	Valley Bank - Kalispell		✓
Dennis DeVries	Security State Bank Polson		✓
Ron Ahlers			✓
Paul Ringling	Montana Alliance	✓	
GENE COOMBS	FIRST INTERSTATE BANK BILLINGS		✓
DAN JORDAHL	✓ ✓ ✓		✓
Mike Grove	FNB White Sulphur	✓	
Gary Bowler	MBA	✓	
Steve Browning	Bankers Coalition	✓	
Tom Dowling	MIB		✓
Keith L. Colbo	MIB		✓
Roger Tippy	MIB		✓
RILEY JOHNSON	NFIB		✓
Lynn Chenoweth	Dept of Revenue		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

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VISITORS' REGISTER

______________________ COMMITTEE

BILL NO. HB157 DATE 1-18-89

SPONSOR Swift

NAME (please print)	REPRESENTING	SUPPORT	OPPOSE
Bruce A. MacKenzie	DADCO Inc. Trust Corporation of Montana	w/Amendments.	
[illegible]	MAPP	✓	
Casey Reilly	First C.t. Bank Butte		✓
Rep. Janet Moore	HD-65	✓	
Bill Leary	MBA-Helena	✓	
[illegible]	Citizens State Bank Scobey	✓	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FOI

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

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